

**TO CONSIDER THE OBSTACLES FACED BY SMALL
BUSINESS EXPORTERS**

**HEARINGS
BEFORE THE
COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE**

NINETY-SEVENTH CONGRESS

SECOND SESSION

TO

CONSIDER THE OBSTACLES FACED BY SMALL BUSINESS EXPORTERS

**WASHINGTON, D.C.—AUGUST 19, 1982
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TO CONSIDER THE OBSTACLES FACED BY SMALL BUSINESS EXPORTERS

THURSDAY, AUGUST 19, 1982

U.S. SENATE,
SUBCOMMITTEE ON EXPORT PROMOTION
AND MARKET DEVELOPMENT,
COMMITTEE ON SMALL BUSINESS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 424, Russell Senate Office Building, Hon. Rudy Boschwitz (chairman of the subcommittee) presiding.

Present: Senators Boschwitz, Hayakawa, Huddleston, and Nunn.

Also present: Robert J. Dotchin, staff director; Anne H. Sullivan, professional staff member; Tim Bergan, legislative assistant to Senator Boschwitz; Alan L. Chvotkin, minority chief counsel; Roger LeMaster, legislative counsel to Senator Huddleston; and Dorothy C. Olson, hearing clerk.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM THE STATE OF MINNESOTA, AND CHAIRMAN, SUBCOMMITTEE ON EXPORT PROMOTION AND MARKET DEVELOPMENT OF THE SENATE SMALL BUSINESS COMMITTEE

Senator BOSCHWITZ. Welcome to the Small Business Subcommittee on Export Promotion and Market Development. This morning we are holding hearings about the obstacles that small businesses face in exporting. The hearing will focus on the subcommittee's survey of approximately 6,200 small business exporters, asking them to identify the obstacles that they feel they face in exporting and what actions they suggest on our part here in Washington.

I am particularly looking forward to the testimony of a number of small businessmen, including Mel Dove, of the Gandy Co., in Owatonna, Minn., who have been exporting for some years and it has been a significant part of their business.

This hearing will also focus on the implementation of Public Law 96-481, the Small Business Export Expansion Act. I look forward to hearing from the Small Business Administration, which I believe is making a solid effort on behalf of American small business. I am pleased to have Bill Morris of the International Trade Administration, representing the Department of Commerce. Last spring I joined Bill in announcing the Commerce Department publication called "A Basic Guide To Exporting," which is a very useful tool that is written in a language that the small businessman can understand.

There is no doubt in my mind about small business and the role it should play in exporting. It is possible to expand but small business undoubtedly feels there are some hindrances to exporting. They have helped us identify a number of them. In our State we export approximately \$4 billion worth of goods, almost double 1977, and for each \$1 billion, 24,000 jobs are created, so it is very important to our State, as a matter of fact, to the entire country.

At this point I will ask that the balance of my statement be inserted in the record. Also, we have a statement from the distinguished chairman of the full committee, Senator Weicker, and Senator Sasser, which will be inserted in the record at this point, without objection.

[The material follows:]

Small Businesses can create even more jobs by actively exporting their goods and services. Each \$1 billion in exports creates 24,000 U.S. jobs—almost 850,000 new jobs from 1977 to 1980. Businesses in my state of Minnesota have been very aggressive exporters—in 1980 Minnesota exported \$3.9 billion worth of manufactured goods, nearly twice as much as the \$2.3 billion in 1977. That \$3.9 billion in 1980 generated 13.1 percent of Minnesota's total employment. Even so, 80 percent of the goods and services exported by this country are currently exported by only 1 percent of the U.S. exporters. Furthermore, it is estimated that over 20,000 businesses have the ability to export but do not, for one reason or another. In Minnesota alone, there are 5,000 manufacturers that do not export, even though many could.

My interest in exports is two-fold. As a businessman, I see them as a way for broader markets to improve the bottom line of many companies. As a Senator, I see that as these businesses improve so does our economy. More export trading strengthens our international balance of payments and creates more jobs. The key now is to make sure all businesses who could benefit from international trade are aware of its potential.

There may be large numbers of reasons why individual firms do not export—differences in cultures, currencies and languages, financing, inexperience and basic inertia. The survey shows what small businesses see as obstacles to exporting—primarily lack of information, excessive regulation and the cost.

In this context, the survey is a useful tool for us in the Senate. It provides us with the input we need to recognize and overcome the problems. I look forward to working with SBA, the Commerce Department and the members of the Small Business Committee to remove obstacles to small business exports.

STATEMENT OF HON. LOWELL WEICKER, JR., A U.S. SENATOR FROM THE STATE OF CONNECTICUT, AND CHAIRMAN, SENATE SMALL BUSINESS COMMITTEE

I want to commend my colleague, Senator Boschwitz, for holding this hearing today to examine the results of a survey conducted by his Subcommittee on Export Promotion and Market Development to look at the obstacles to exporting faced by small businesses. I believe the findings of this survey, which will be released today in the form of a committee report, will prove enormously helpful to the committee in the months ahead as we address the role small business can and should play in exporting.

My own State of Connecticut exports more per capita every year than any other State in the Nation. Yet according to the Department of Commerce, we could be exporting even more. Commerce estimates that there are at least 20,000 small- and medium-sized businesses throughout the Nation that could be exporting but are not for reasons such as those cited in the committee's study.

As a result of the committee's findings, I am hopeful that steps will be taken by the Federal, State and private sectors to encourage a fuller realization of our Nation's export potential. One of the purposes of this hearing is to solicit suggestions as to what these steps should be.

We are all aware of the great contribution small businesses already make in generating new jobs. By actively exporting their goods and services, small businesses can create even more jobs. And let me say that there has never been a time when this need was greater.

With the recent decline in interest rates which will inevitably weaken the dollar abroad, it is particularly important that we renew our efforts to encourage greater

exporting by the small business community. I hope this hearing will signal the beginning of this process.

STATEMENT OF HON. JAMES R. SASSER, A U.S. SENATOR FROM THE STATE OF
TENNESSEE

Mr. Chairman, we should promote small business exports in order to have a sustained economic recovery. We began serious work in this area with the 1980 White House Conference on Small Business and the Small Business Export Expansion Act of 1980.

Yet, currently, small businesses account for less than one-tenth of the annual exports of the United States. That figure is made even more alarming when you realize that there has been little growth in exports in the United States in the last decade. Small business can play a significant role in helping to reverse this trend. There are currently some 20,000 small businesses with the capacity to compete and make a profit selling their goods overseas. There are measures we can take to aid in getting these entrepreneurs into export trading.

One of the main reasons behind the virtual absence of small firms from export markets is rather basic. Small firms simply do not have adequate information about exporting. They do not know of potential foreign customers or foreign markets.

It seems clear to me that the Federal Government can provide assistance in locating foreign customers through our overseas embassies or through other central sources of information upon which small firms could rely.

Yet another area where the Federal Government can be of assistance to small firms which want to export is in easing the regulatory burden surrounding exporting. There is currently so much red tape and paperwork in both foreign and domestic marketplaces that reluctance on the part of small firms to export is understandable. There is considerable delay in receiving import certificates from importing countries as well as a lengthy delay before an export license is granted.

I am confident that through the statements of the witnesses here today and the report of the Committee on Small Business on this topic that we will explore many ways of promoting small business exports. I am equally confident that with the boundless energy of America's small business men and women we will begin to see small firms playing a greater and greater role in our export market.

Senator BOSCHWITZ. I am pleased to have the senior Senator from Kentucky with us this morning, who is the ranking member of this subcommittee and who I know, as I work with him on other committees, takes a very active role in promoting small business, the small farmers, the entire business climate not only of his State but the Nation. We welcome you here, too, Senator Huddleston. Do you have an opening statement?

STATEMENT OF HON. WALTER D. HUDDLESTON, A U.S. SENATOR
FROM THE STATE OF KENTUCKY

Senator HUDDLESTON. First I want to commend you, Senator Boschwitz, for conducting these hearings and for initiating the subcommittee's survey that was conducted. This gives us an opportunity to review that survey.

In the 96th Congress, under the leadership of former Senator Nelson and Senator Weicker, this committee held 6 days of hearings on various elements of our Nation's export promotion efforts. The result of those hearings was a legislative package of amendments designed to remove some of the readily identified barriers to increase small business participation in exporting. That legislation, which we will in part review today, had four major components: first, the creation within SBA of a statutory Office of International Trade; second, the establishment as part of SBA's financial assistance programs, clear authority for guaranteed loans for export purposes and a special export revolving line of credit program; third, a

Commerce Department "Small Business International Marketing Program" to rely on the private sector, through a matching funds program, to provide counseling and assistance to small business, particularly in obtaining information on how to export, providing foreign market analysis, and identifying foreign customers; and, fourth, a pilot one-stop center to provide a single location for information for businesses interested in exporting.

In the 97th Congress, our committee continued its activity in the area of exports. As part of our organizational structure, we have created this Export Subcommittee. In addition, under the leadership of Senator Boschwitz, the subcommittee conducted a survey to determine the obstacles to exporting small businesses encounter, as well as their suggestions for remedies. The subcommittee will be releasing and reviewing that survey today, as well.

Mr. Chairman, despite the legislative efforts that we have previously initiated to encourage small business participation in exports, and even with the current proposals in Congress dealing with export trading companies, small businesses are hit with the same domestic problems that are common to all types of businesses. If anything, the current state of the economy is having a greater effect on small business' ability to export.

The primary problem, of course, is excessive interest rates which keep the dollar artificially high. As a result, the strong dollar makes it difficult if not impossible for American businesses to compete in world markets. Even if a small business wants to export and has the necessary assistance to do so, it may not be able to export because inflated exchange rates make its goods more expensive than those offered by foreign competitors. In effect, high interest rates at home are a double-edged sword which is killing both the domestic market and the foreign market for small business.

Because of the high interest rates and other factors, small businesses are in need of all the assistance they can get in order to increase their exports. Despite all that we have done to date, U.S. businesses are losing their share of the world market. In 1962 American industry accounted for 22 percent of the world's manufacturing export sales. However, that share has now fallen to 16.8 percent and there is every indication that it will get worse.

Mr. Chairman, the continued well-being of our economy requires that the United States get back into the export race with new ideas. I am confident that our witnesses today will provide this subcommittee with some ideas for action that the Federal Government should take to minimize the obstacles to exporting and increase the business opportunities for small business abroad.

I look forward to hearing the testimony today and I thank you again, Mr. Chairman, for conducting these hearings.

Senator BOSCHWITZ. Thank you, Senator Huddleston.

Our first panel will be Mr. M. A. Dove, vice president of international sales at the Gandy Co.; Mr. S. J. Byers, president of the Bunton Co. in Louisville, Ky.; and Mr. Dietner Doehring of Chromatics of Tucker, Ga.

Gentlemen, would you come up and sit behind the signs with your names?

Mr. Doehring, do you have any prepared testimony, copies of it, by chance?

Mr. DOEHRING. Yes, sir.

Senator BOSCHWITZ. You have copies of it?

Mr. Dove, if you will proceed, we will appreciate it.

**STATEMENT OF M. A. DOVE, JR., VICE PRESIDENT OF
INTERNATIONAL SALES, GANDY CO., OWATONNA, MINN.**

Mr. DOVE. Very good, Mr. Chairman. Thank you for the opportunity to be here today.

The company that I represent is a small, family owned corporation located in Owatonna, Minn. We manufacture granular insecticide and herbicide applicating equipment for agriculture. We have been in business since 1936. Currently approximately 30 to 40 percent of our volume is export and we are looking for more.

In your survey the greatest number of manufacturers stated that lack of information was the most often mentioned problem of a prospective exporter. Within that category, the problem of how to find potential foreign customers and agents was a problem for 41 percent of the small manufacturers.

Let us try to bring some of the prospects to him. I believe that most foreign distributors and agents will come to the United States at their own expense if we sell them on the idea that there is a possibility of obtaining profitable new lines for them to sell. We also have to convince the prospective buyer that the obstacles are not insurmountable. We must create or find a business climate for this individual to walk into.

One of the ways that I would like to meet prospective buyers is through the numerous large domestic agricultural trade shows in which we participate, such as the Farm Progress Show, the Louisville Farm Show, and others too numerous to mention. The United States has some of the finest national and international trade shows in the world in all fields.

Most small business firms will show their goods at these shows every year. Most of these trade shows have become educational in nature, as well as being a display of goods and services. Many of these trade shows claim to be international in scope, in that they invite foreign firms to display and do open the show to foreign business. However, I believe much more can be done.

Many foreign visitors find it difficult to visit appropriate trade shows for a number of reasons, and I am sure there are some more than those that follow: No complete information on the show is available to many of our foreign distributing firms. Visas to the United States may sound difficult to obtain. To obtain foreign currency and permission to travel, the validity of the travel must be proven to the foreign government. There is concern about travel and accommodations; possible language problems; and concern about personal safety in many of our large cities.

Many of our large trade associations have large enough budgets to develop promotional material such as brochures in major languages, slide presentations, housing bureaus for foreign guests, convention tour guides and interpreters, and they can give advance information about companies and products that will be at the show. I believe that a subsidy should be given to major trade shows to develop and provide this type of service.

Our Department of Commerce, through the consulates in foreign countries, could help as follows: Invite businessmen and women to promotional meetings, offer to assist with previously mentioned problems; invite a travel agent to explain special fares and group rates; arrange for factory tours for guests if they are interested; and provide a world trader report on firms from their country planning to visit the show.

Our domestic Department of Commerce could work with trade show associations as follows: Sell the trade associations on advantages of attracting foreign businessmen and therefore make their trade show a truly international one; send advance information to manufacturers that are not exporting on how to quote and the information a foreign firm will need in order to buy from them; provide advance information to all manufacturers on the foreign guests that are arriving; make advance appointments for foreign guests that are arriving to talk to knowledgeable manufacturers' personnel; have a seminar the night before the trade show opens for manufacturers not in the export business on the do's and don'ts of exporting; provide a room for a manufacturer to present slides, films, and so forth.

I believe that the advantages for a foreign firm are numerous. A visit to America is uppermost in the minds of most foreigners. At a large trade show, the buyer can compare many products in the same field. Factory tours and demonstrations can be arranged. The buyer can be assured of speaking with the most knowledgeable factory personnel. Most foreign distributing firms and agents are looking for new lines, and at a large trade show there will be many choices.

I do not believe that the American Government should subsidize any of the traveling expense or other personal expense of the foreign buyer. We should sell the program on the idea that he will be exposed to the largest array of American goods in the field. The focal point of an effort such as this should be on businessmen, not on tourists.

That, sir, is my prepared statement. I also have some other statements that I would appreciate being able to make.

One of those is the fact that we are indeed a very small firm in the manufacturing business. I am the export department in its totality. We are a very small company. I am also just a graduate of a small southern Minnesota college in business administration; I have no training in international trade. I know that there are many products in the field that have special problems in exporting such as import regulations.

However, I have not found exporting of agricultural goods a particularly difficult problem to overcome. Yes, we do have problems. Probably the largest problem is finance, how to get a quick credit reference on a foreign customer. Large international banks, really do not want to talk to you unless you are talking about a quarter of a million dollars in finance, and it is rare that a small exporter can talk about an order in this scope when you are trying to get the original order.

The FCIA I think has a lot of red tape and is quite expensive for a small manufacturer. DISC has been a big help for us and we certainly encourage its continuance but it does not give the help that

a man just starting in export needs. The strong dollar has meant a great deal in holding down our sales this year and the interest rates, of course, have made the strong dollar.

However, the American businessman can also count his blessings, I think, that it is customary to do business in American dollars, English is still the business language, and the general reputation of American goods is good.

With that, sir, I will close my testimony.

Senator BOSCHWITZ. Senator Hayakawa, do you have any opening statement?

**STATEMENT OF HON. S. I. HAYAKAWA, A U.S. SENATOR FROM
THE STATE OF CALIFORNIA**

Senator HAYAKAWA. I have an opening statement that I shall not read. I shall not read the whole thing but I do ask that the entire text be included in the record, Mr. Chairman.

I will just emphasize one small part of it. As a member of the Senate Agriculture Committee, I am interested in sales of farm and food products, particularly since agriculture is one of California's major industries. In this connection I would like to mention a program established 2 years ago by the U.S. Department of Agriculture's Foreign Agricultural Service to provide a broad range of services to small companies interested in exporting food products through a network of agricultural counselors, attachés, and trade officers overseas as well as a backup team of commodity analysts, marketing specialists, and other support staff in Washington. All this should help.

FAS officials advise that they now have about 250 small companies on their active list and are willing and able to assist others. Services include market introduction, promotional assistance abroad, and trade leads, product advertising abroad, and trade exhibits. While trade exhibits continue to be one of the most effective means of introducing and promoting food products overseas, many small businesses cannot afford the exhibit fees and other costs.

I am happy to see, however, that the FAS and the Small Business Administration have worked out a support plan whereby the Small Business Administration will provide financial assistance to small food exporters to help them attract customers. FAS offices are located in 71 countries overseas and provide valuable resources for trade opportunities.

I just want to add that for the information of the people who are testifying today. I request that the whole statement be included in the record, Mr. Chairman.

[The prepared statement of Senator Hayakawa follows:]

**STATEMENT OF HON. S. I. HAYAKAWA, A U.S. SENATOR FROM THE STATE OF
CALIFORNIA**

Mr. Chairman, it is estimated that approximately 95 percent of the world's population and two-thirds of its total purchasing power are located outside the United States. It is logical, therefore, that small businesses would be wise to consider exporting and to examine how to enter the World Trade Market. There are many foreign markets that would benefit small businesses that would not offer enough revenues to large multinational corporations, and it is a fact of business life that attractiveness of overseas markets increases during the periods of domestic recession.

The U.S. Government actively supports small businesses interested in entering the export trade market through services, publications and programs administered by the U.S. Department of Commerce, the Small Business Administration, the Export-Import Bank, the Overseas Private Investment Corporation, the Department of Agriculture, and others.

And yet it is a fact that our smaller companies—those employing fewer than 250 people—contribute about 6 percent of exports in manufacturing, even though they account for around 17 percent of manufacturing production. While thousands of small and medium-sized businesses produce goods and services that are competitive overseas, many are inhibited from exporting by their lack of familiarity with foreign markets, customs, and laws.

Mr. Chairman, you are to be congratulated for your recent survey of the small business community to determine their specific problems either in entering the export business or carrying on their current export trade. Under your direction, the committee staff mailed questionnaires to 6,249 businesses, tabulated 1,181 responses, and wrote the report we are considering today. You found that there are three broad obstacles facing small exporters: Lack of information; regulatory problems; monetary problems.

The importance of export trade in our present economy cannot be underestimated. Traditionally, many American firms, large and small, have been lukewarm about exporting to increase sales. But the time has come where they must seek new and larger markets for their goods in order to meet world-wide competition to stay in business. As we know, however, small businesses do not have the expert resources of larger firms and it is much more difficult for them to handle the intricacies of foreign trade. But there is a huge world market for many of their goods, and I am pleased to participate in the committee's effort to examine their problems and how the Government can assist.

This assistance is not wholly in the nature of grants or direct financial aid, although these can be productive for our entire economy if wisely distributed. There are many other ways the Government can help by sharing the expertise of Federal experts here and abroad, refining restrictive trade regulations when necessary, and creating a positive climate for small businesses to export.

As a member of the Senate Agriculture Committee, I am interested in sales of farm and food products, particularly since agriculture is one of California's major industries. In this connection I would like to mention a program established two years ago by the U.S. Department of Agriculture's Foreign Agricultural Service [FAS] to provide a broad range of services to small companies interested in exporting food products through a network of agricultural counselors, attachés, and trade officers overseas, as well as a backup team of commodity analysts, marketing specialists, and other support staff in Washington.

FAS officials advise they now have about 250 small companies on their active list and are willing and able to assist others. Services include market introduction, promotional assistance abroad, trade leads, product advertising abroad, and trade exhibits. While trade exhibits continue to be one of the most effective means of introducing and promoting food products overseas, many small businesses cannot afford the exhibit fees and other costs. I am pleased to state, however, that FAS and the Small Business Administration have worked out a support plan whereby SBA will provide financial assistance to small food exporters to help them attract customers. FAS offices are located in 71 countries overseas and provide valuable resources for trade opportunities.

To help more small businesses export, the Small Business Administration recently established a national export revolving line of credit loan program, authorized by Public Law 96-481, to guarantee up to 90 percent of a revolving line of credit loan made to a small business exporter by a bank or other lending institution.

To increase the exporting capacity of America's businesses the Senate and the House recently passed legislation that would promote the formation of export trading companies. We have been trying to pass this legislation for four years, and it is now in the final stages of completion. While our foreign competitors have flourishing export trading companies they have been slow to grow in this country because they lack adequate financing and because businessmen who would start them are uncertain of the antitrust laws. The legislation awaiting final action corrects the problems and will promote export trading companies over the next several years. There is ample evidence that export trading companies of foreign countries such as Japan, West Germany, France, and Hong Kong work well. Export trading companies could find buyers for U.S. goods, package and warehouse merchandise, arrange transportation and insurance, and provide other services that individual small firms

cannot afford. I actively supported this legislation and am very pleased that it will soon become law.

Thank you, Mr. Chairman, for holding this hearing on small business exporting. You are providing an important service and I commend you and the staff for your efforts.

Senator BOSCHWITZ. Thank you, Senator Hayakawa.

Your reference to the Foreign Agricultural Service is particularly appropriate, inasmuch as we do not have witnesses from that area, but agricultural exports constitute—together with the materials that Gandy and others export—somewhere between 25 and 30 percent of our exports, the commodities themselves about 20 percent of our total exports and other items about 5 to 10 percent.

Senator HUDDLESTON. Mr. Chairman, I might point out that in all three of us are on the Agriculture Committee, which later today will be considering, an issue that may be of some interest and import to Mr. Dove. The FIFRA may have more to do with how he sells his product than what we are talking about here this morning.

Senator BOSCHWITZ. Mr. Byers, would you proceed, and then we will question the panel at the conclusion of all of the statements.

However, I quite agree with Senator Huddleston. A number of us on this committee are also on the Agriculture Committee. I am chairman of the Foreign Agricultural Subcommittee as well, on the sale of not only agricultural implements but commodities abroad, and it might be of interest to you to go downstairs later.

STATEMENT OF S. J. BYERS, PRESIDENT, BUNTON CO., LOUISVILLE, KY.

Mr. BYERS. Thank you, Senator, and good morning.

My name is Stan Byers. I am president and chief executive officer of Bunton Co., located in Louisville, Ky. Bunton Co. has been in business 34 years, and we specialize in manufacturing heavy-duty commercial lawnmowers for use in cemeteries, parks departments, Federal Government installations, lawn service operations, golf courses, et cetera. We presently employ 109 people and have never laid anyone off for lack of work in the history of the company.

Senator BOSCHWITZ. That is unusual in Louisville at the present time. I hear that things are tough down there.

Mr. BYERS. You are correct, Senator, it is.

My purpose here today is to present testimony to this committee concerning exports of U.S.-manufactured products and how the Government can aid us in exporting more. Bunton Co. currently exports to Canada, Eastern and Western Europe, Australia, and Japan. We have been exporting Bunton-manufactured mowers since 1967, and for our 1981 fiscal year exports accounted for 24.7 percent of our total sales. For fiscal 1982, which ended July 31, our exports as a percent of sales are down to 12.9 percent because of the much stronger dollar as it relates to other currencies. I do not know what we can do about that unless we get Volcker to reduce the rates.

There are, however, two other areas that I think we can attack. One of those areas is domestic Government regulations that will affect everyone in our industry. There is a Consumer Products Safety Commission regulation that was effective June 30, 1982, re-

quiring that the rotating blade on a rotary lawn mower stop within 3 seconds upon the operator leaving the operating position, to help prevent injuries from blade contact. You Senators may be aware of that standard.

Also contained in that mandatory standard is a provision that says any U.S. manufacturer that exports products to other countries that do not meet the U.S. standards must notify the CPSC 30 days prior to shipment, so the CPSC can then notify the government of the country the goods are being shipped to that there are mowers coming into that country that do not meet a current U.S. safety standard. Of course, the implication is that the goods being shipped are inferior and are being dumped in that country, whereas in fact the units are probably the exact same models as were sold last year and the year before. Even though this requirement may seem a bit trivial, it is for us, the suppliers, additional redtape that could hamper giving our customers the service concerning deliveries that they expect.

Even though we meet the standards that are effective in the country those mowers are being shipped to, I think that that provision in the CPSC regulations is going to cause a lot of problems for some of us in the industry.

Another element that we as manufacturers are certainly concerned about is the protectionism shown by standards development in some foreign countries. I believe that some foreign governments are establishing unreasonably high standards to keep U.S.-manufactured products out of their marketplace rather than face a fight over increasing their tariffs on imported products. We cannot sell a mower today in Sweden. We have tried for over 2 years to pass their noise and blade contact requirements, and have come to the conclusion that it is a futile effort. The Swedish Government does not want us to meet the standard.

Our larger mowers with U.S.-manufactured engines will not meet the German noise requirements. Our units mounted with more expensive German engines will. All the machines that we sell in Germany today have to be shipped with that German-made two-cycle engine. This same trend is now beginning in France. The answer to this problem, we think, is to have international safety standards that would apply worldwide. Our industry trade association, the Outdoor Power Equipment Institute, has been a member of the International Safety Organization for several years but in discussing these international safety standards with them, they feel it is almost impossible to get to that point.

I would like to make one last comment before closing: There has been some discussion in Washington about doing away with the tax advantages of Domestic International Sales Corporations, commonly called DISC's. We established a DISC in 1979. Since that time our exports have increased and we have increased our work force by over 35 percent. We have increased our plant facilities four times what they were this past year. Also, please keep in mind that these are permanent, year-round jobs, since it is our policy not to lay anyone off for lack of work. We certainly do not want to see the tax advantages of the DISC diminished.

Thank you for your attention. I guess we will have questions later.

Senator BOSCHWITZ. Thank you, Mr. Byers.

Mr. Doebling, am I pronouncing your name correctly?

**STATEMENT OF DIETMAR DOEHRING, CHROMATICS, INC.,
TUCKER, GA.**

Mr. DOEHRING. My name is Dietmar Doebling, and I am representing Chromatics, Inc. Chromatics is located in Tucker, Ga., and is a manufacturer of color-graphic terminals and computers. The company decided in October 1981----

Senator BOSCHWITZ. What is a color-graphic terminal?

Mr. DOEHRING. A color-graphic terminal or computer? You may be familiar, Senator, with a regular black-and-white terminal. We manufacture high-technology color-graphic terminals on which you can represent in various colors graphic displays like price charts, bar charts. That would be one application. Another application is in process control, where you can show a process control in color instead of in black and white.

Senator HUDDLESTON. You can see the red ink in your financial report.

Mr. DOEHRING. That is right. However, it has a lot of advantages. It is a new technology which is about 11 years on the market, and it is growing by leaps.

In October 1981 we decided to market our product internationally through distributors and agents. The business outlook and interest for our product was tremendous but frustration started to set in when waiting periods of up to 90 days were experienced from the time the order was booked to final issue of an export license.

Major reasons for the delays are that it will take up to about 2 weeks for receiving an import certificate from the importing country and the certificate is essential to apply for an export license. No. 2, it is taking an average of 45 days before an export license is granted. The process—1 and 2—I just described has to be repeated if some parts of the import certificate are not acceptable to the export license agency. Another point of delay is customers making changes in configuration while we are applying for the export license, and we have to initiate steps 1 and 2 over again.

Any combination of the above will automatically generate additional costs for the company, since letters of credit have to be extended, systems ready to be shipped have to be stored, and in some cases penalties, monetary penalties, will be assessed by not conforming to the delivery deadlines. This additional workload requires more personnel to coordinate shipments, check the status of export licenses, letters of credit, and also valuable time is lost to generate more business.

A simplification for obtaining export licenses is an absolute necessity in order to encourage small businesses to engage in international trade and also cut the present unnecessary expenditures to a minimum. An acceptable procedure for all parties involved would be the qualification of each product for export licenses on a one time basis for each country instead of the present repetitive procedure which requires application each time for the same product.

Thank you.

Senator BOSCHWITZ. It is my understanding that Secretary Morris is going to address the question of export licenses and approvals, so we will let him answer some of your questions as well.

I would like to ask first you, Mr. Dove, and you, Mr. Byers and Mr. Doebling, you each are involved in exports and I would like to know how you went about the business of getting started. Was it true in your case, Mr. Dove, the trade show route? You talked at some length about that. Mr. Byers, I am not quite clear from your testimony how you got started or exactly when you got started in business—oh, yes, you did. You said since 1967. However, I wonder if each one of you can tell us where you got the idea in your company that the export market would be a good market and what you did from there, in a fairly brief format or as much time as it takes you to describe that.

Mr. DOVE. Yes, Senator. We——

Senator BOSCHWITZ. Incidentally, Mr. Dove, my sons went to small Minnesota colleges, too.

Mr. DOVE. Thank you.

Senator BOSCHWITZ. That is a qualification, not a——

[Laughter.]

Mr. DOVE. In our company we sat down and decided that we would take a look at various ways in which we could improve our business, and primarily because ours is a seasonal type of business, we wanted something that would level off our business for the year. We thought that probably shipping some of our goods into the Southern Hemisphere would be a good way for us to level it off.

Senator BOSCHWITZ. Is that where most of your exports go to?

Mr. DOVE. Yes; a lot of it goes into South America and also into Africa, particularly South Africa has been a good customer of ours.

Therefore, we were trying to determine how we were going to meet someone from this area, and seeing that we sell insecticide and herbicide applying equipment but not any of the insecticides and herbicides, I decided that we would go to the national trade show or a national seminar on insecticides and herbicides to which all of our major chemical companies come. Most of these large chemical companies such as Union Carbide, Stouffer and others probably spill more in a day than we have in gross sales in a year, but we did go and visit with some of their international people, and in so doing we determined in what area of the world there was a need or could be a need for our equipment.

Then I started working through these people and actually made a trip to South Africa. We also went to the Department of Commerce and found prospects through World Trader reports. I might add that our Minneapolis-St. Paul Commerce Department office has been very, very helpful to me. I know that some of the people have had disappointing things said about their areas but Mr. Glen Matson, the director of our Department of Commerce office, has been very, very helpful to me, and I am sure to many other small business people in our area.

Senator BOSCHWITZ. You talked about it now being 30 to 40 percent of your volume. You need not state what your volume is, but the overseas exports are now about what range?

Mr. DOVE. Several million dollars.

Senator BOSCHWITZ. Therefore, it has become meaningful. Are the international trade shows that you speak of, are they selling shows?

Mr. DOVE. Some of them are selling shows. Some of them are types of shows where we display our equipment and demonstrate it.

Senator BOSCHWITZ. Do you attend trade shows in South Africa and other countries?

Mr. DOVE. I have, with our distributor, as a general rule we support him in the trade shows within his country, often with a visit but often by monetary means.

Senator BOSCHWITZ. How did you find your distributors, and where do you have distributors now, Mr. Dove?

Mr. DOVE. We have a distributor for Europe and Eastern Europe in Germany; we have a distributor in Scotland that takes care of Great Britain; and we have a distributor in South Africa that takes care of all of South Africa. We have a distributor in Kenya and other South American countries as well. I have found them in various ways and means, some of them at trade shows.

One trade show that I have gone to is a very large trade show in Germany, in which I have been able to meet some of the other people, too; in showing and working with our distributor in Germany I have met people from other parts of the world.

Senator BOSCHWITZ. Mr. Byer—incidentally, one other question, Mr. Dove, and then we will get back to the same question with Mr. Byers—you said you have some problems in finding out about the creditworthiness of your customers and that large banks look a little askance at inquiries where the inquiry is of a smaller amount. How did you get around that?

Mr. DOVE. My boss is quite a guy, and he just decided that he was going to gamble right along with me and say, "If you think it is a good proposition we will put our neck on the line and go and invest the amount of money." We spent \$5,000 in expenses to visit our first overseas prospect. When we ship to South Africa on the average it takes 10 weeks for our equipment to get there, and our distributor would also like to have a little help by saying that he should have 60 days in order to move his equipment out to his dealers and get his money back from the people that he is selling to. Therefore, I am ending up in effect with a good 120 days in which I have to extend my credit to this man, and if you get up to \$250,000 and above on something like this, with the high cost of money it adds a great deal to your cost of doing business.

Senator BOSCHWITZ. Mr. Byers, how did you get started in 1967? Were you with the company at that time?

Mr. BYERS. No, I was not.

Senator BOSCHWITZ. How did you get started when you decided to start in the business of export? You say that you currently export to Canada, Eastern and Western Europe, Australia, and Japan. I wonder if you would comment about what difficulties, if any, you encounter in any of those areas?

Mr. BYERS. I will be happy to. To give you some background, the way we got started in the export business was through an international show here in the States. They have it every year. It is called the Golf Course Superintendents Association Show, and it is for

commercial mowing equipment. We have been displaying in that show since approximately 1957.

In 1964 we met some people from Switzerland that were interested in our product. It took us 3 years, until 1967, to work out the details and arrangements with them, so basically in Western Europe we are represented by one company in Switzerland that takes care of that market. We ship direct to 18 distributors in Europe. We have at least one in each Western European country.

We are also a seasonal business, as is Mr. Dove, and we face the same kind of dating terms and so forth—he was giving people extended dating to pay for the equipment—that his company is faced with. Many of the other distributors that we have in other countries found out about our product through the European connection that we have. Really, when you get into the lawnmower business in the international market, it is a fairly small group of people and they all know each other real well. If they are happy with your product, they will recommend to their friends that they look at importing your product for sale in their country. That is how we got started, and it has been good business for us. It has enabled our country to grow and prosper.

We have very few credit problems, really. Once and a while you run into a situation where you have to do some investigation but most of the people we sell to have been in business for several years and are reputable, and we just sell them on open account.

Senator BOSCHWITZ. Senator Huddleston, we have a mower company in Minnesota, too—Toro. I do not know if they export or not.

Mr. BYERS. Yes, they export. They do a good job.

Senator BOSCHWITZ. Senator Huddleston and I were whispering to one another while you were testifying, and we will look into the problems that you state. We have a lot of Swedes in Minnesota, and we kid about them a great deal and wonder whether or not they mow their lawns at all but we will get into that and see if we cannot help you.

Mr. Doehring, you recently came to your company. Perhaps, since I detect your accent, perhaps you came for the purpose of developing the international market but I wonder if you could tell us a little bit about the background of your company and how it decided to get into the international market?

Mr. DOEHRING. OK. Chromatics was founded in 1976 so it is a fairly young company. I did not join the company with the intention to open up international business. It was more or less my push internally after I joined the company, to look at the international markets. I had a very heavy international background. Before I joined Chromatics I was marketing director for Africa, Middle East, and parts of Europe, so my knowledge and my expertise in that field helped tremendously, naturally, and I convinced our president that we should address the international markets directly.

The way I approached marketing our product was by looking at companies who are interfacing to our product line. For example, there are several printer companies. I approached them, found out which companies were representing them in different countries, and that is the way I started getting contacts overseas.

Since October 1981 we established distributors in 14 countries. Our product, as I mentioned a while ago, is a high technology product so our market areas are really limited to the high technology countries like Western Europe, Australia, Japan, and Taiwan. That is basically how we approached the international markets.

Senator BOSCHWITZ. Senator Huddleston?

Senator HUDDLESTON. Thank you, Mr. Chairman.

Mr. Dove, you put great store in the ability to sell if you have an opportunity to attract the buyers. What about an effort to get our people to the trade shows that are held at other places around the world. Do we need to do more there?

Mr. DOVE. I have been to several foreign trade shows, one in Moscow and one in Germany, as a company, to the trade show. When you are on foreign ground you are having a somewhat difficult time as compared to showing it here. We are able to take much more goods to our domestic trade shows. We are able to entertain the foreign guests in a manner in which we enjoy very much. I just think that we can show our equipment to a better advantage here in the United States.

When we are overseas, many of us are very concerned about the language problem. We are always talking through an interpreter and this becomes very difficult. When we do attract an international trading company to America, an international distributor, they send persons with English capability and we are able to show them a whole line.

Senator HUDDLESTON. Yes, but isn't that almost a passive approach. It is always nice to deal with walk-in business but sometimes you need to be more aggressive and go out and get it. Shouldn't we do more to prepare our people to deal with international trade shows abroad? What about the information flow? Do you get enough information from any source that indicates when a show is being held in some foreign country that you might be interested in?

Mr. DOVE. Yes, we do get a lot of information. These big foreign shows do let us know when they are having their big trade shows, and most of them have become so expansive that I do not think the average person could get around them in the time allotted. Most of our trade shows are more specialized.

Senator HUDDLESTON. I see. However, you think that our best bet still is trying to attract the potential customers here?

Mr. DOVE. I think we ought to go both ways.

Senator HUDDLESTON. Yes.

Mr. DOVE. I think the thing to remember is the qualifications that a small business has in being able to go to a foreign country. I noticed in one of the reports that one man did not feel that he could go into international business because it cost \$60 to buy something on the regulations. That gives you an idea of some of the reasons that some of these people have for not doing foreign business.

Senator HUDDLESTON. Well, depending on the type of product you are selling, I can see where a product that is large or bulky would be very difficult to move demonstration units overseas. Would there be any possibility or any potential for developing some kind of a cooperative effort where a number of small businesses could go

together and arrange to have a sampling of their products, plus instead of each one having to have a separate interpreter you could have one person that could speak for several, and have a display of several different products in one show? Does that offer any possibility?

Mr. DOVE. Our company did, through the Department of Commerce, go to Moscow to show our goods at a big agricultural show in Moscow, and we did have an individual interpreter. Of course, we do not know how well we got the message on our equipment across to this young lady who was our interpreter.

I think, too, that there is some enamored vision about what an American is like and how you should present yourself. We are not like the movie stars and don't try to be. It is difficult to get a technical message across to the average interpreter. We spoke to many people just paying a courtesy call and to collect the gifts. Too many of the foreign trade shows allow the general public to attend.

Senator HUDDLESTON. I can understand that. You think our best bet, then, is to really try to find ways to help our trade shows in attracting more distributors from abroad here?

Mr. DOVE. Yes, sir, I think we should do both.

Senator HUDDLESTON. Make sure that they have adequate information.

Mr. Byers, you are probably too modest to say it but let me say as a fellow Kentuckian how proud we are in Kentucky of your company and its record. I knew you were doing an outstanding job but I think the statement that you made, that in the 34-year history of the company you have never had to lay off an employee for lack of work, is exemplary in particular. I hope you can keep that record intact for the next few months, and I know that it is not getting any easier.

You mentioned this particular regulation which I recall when it went into effect. Do you have an idea of how much that cost your company to comply with that, just from the technical, manufacturing standpoint?

Mr. BYERS. Senator, I cannot answer that yet because the standard was just effective and we have not shipped any product for next season yet. We are booking stock orders now so within the next 3 months we will have some idea of what that is going to cost.

I guess the concern that I have, if you put yourself, let's say, in a foreign government in a bureaucratic job and they get a notification from the CPSC that says that these mowers are coming to your country and they do not meet the U.S. safety standard, are they going to call our distributor in that country and say, "Look, you cannot import these?"

Senator HUDDLESTON. Yes, even though they might meet the standard of the country involved.

Mr. BYERS. They definitely would meet the standard of the country involved.

Senator HUDDLESTON. Or they would not be allowed in in the first place, so we are just imposing another negative. It probably sounds worse than it is to tell a distributor that he is now getting products that are unacceptable in this country.

Mr. BYERS. Right. What does the foreign government care as long as it meets their standards?

Senator HUDDLESTON. Yes.

Mr. BYERS. Why should our Government even notify them?

Senator HUDDLESTON. I think that is a pretty good point. Now these other standards that you are concerned with, it seems to me that too often we are allowing nontariff barriers to really make it almost impossible for us to deal abroad. Another company, you know, had the trouble exporting baseball bats to Japan, just a ridiculous situation, and we are seeing that all the time.

This idea of having to use domestically made parts or devising standards that you cannot meet unless you do use a domestically made part, is that a growing thing that you see developing? Apparently it has hit your particular products pretty substantially.

Mr. BYERS. Yes, I think it is growing and I think we have to realize that with current economic conditions worldwide, we are going to be faced with more and more of that unless we can get the economy turned around.

Senator HUDDLESTON. Right. Every country is getting more concerned about the competition with their local production.

Mr. BYERS. That is right. I mentioned the Swedish standards in my presentation. Certainly the Swedish Government is trying to protect their own domestic manufacturers. There is no question in my mind about that.

Senator HUDDLESTON. Yes. However, you can claim that you have open doors and free trade, all they have to do is meet our standards. It just happens that our standards are those that can only be met by domestically produced products.

Mr. BYERS. Right, and when you look at a market like Sweden, even though we are a small company, we cannot change our product to sell 15 or 20 machines.

Senator HUDDLESTON. Yes, I understand.

Mr. BYERS. You might be looking at, maybe, a total of 50 to 100 units a year in Sweden, maybe 1,500 or 2,000 in Europe altogether. You cannot redesign and change things in manufacturing for those kind of numbers. It is not economically feasible.

Senator HUDDLESTON. Now the percentage you gave on your current exports being down—was that a percentage of your total sales?

Mr. BYERS. That is a percentage of our total sales. Our exports this past year in dollars were actually down 29.7 percent.

Senator HUDDLESTON. What about your total sales?

Mr. BYERS. Our total sales as a company were up 39 percent.

Senator BOSCHWITZ. Up what?

Mr. BYERS. Thirty-nine percent.

Senator BOSCHWITZ. This year?

Mr. BYERS. This past year, ending July 31. We did a pretty good job in the United States.

Senator HUDDLESTON. You can tell by his suntan he has been out on the golf course selling these products. [Laughter.]

Senator BOSCHWITZ. That is a remarkable record in this year.

Mr. BYERS. Thank you. We are proud of it.

Senator HUDDLESTON. Do you feel the dollar situation and the high interest rates are a major reason for the decline in export sales?

Mr. BYERS. It certainly is, Senator. France is our largest market in Europe. About 1 year and 3 months ago, if my memory is correct, the exchange rate on the French franc was 4.5 to 1. Now it is approximately 7 to 1. That means that our French distributor has had approximately a 55-percent increase in his cost to import our product.

There is nothing you can do about it. We cannot reduce prices 55 percent. We only make 2 percent after taxes.

Senator HUDDLESTON. Do you sell anything in Mexico?

Mr. BYERS. No, we do not, and the reason we do not do that is because they cannot import any units with engines on them that the horsepower is under 11.

Senator HUDDLESTON. Under 11?

Mr. BYERS. Under 11 horsepower, for a lawnmower, so that bars us from the market.

Senator HUDDLESTON. Why do they have that? Do they have tough grass to mow? That is a very powerful lawnmower.

Mr. BYERS. No; it is because they manufacture 11 horsepower and smaller engines in Mexico and they do not want the competition.

Senator HUDDLESTON. I see—yes.

Senator BOSCHWITZ. Would you yield for a question?

Senator HUDDLESTON. Sure.

Senator BOSCHWITZ. How much of this increase in the French exchange rate was not high interest rates, which thankfully are coming down, but they have devalued their own currency a couple of times, if I am not mistaken.

Mr. BYERS. Well, I am not sure they have devalued it. Certainly I think that—

Senator BOSCHWITZ. Sure they have.

Mr. BYERS [continuing]. That Mitterand's social policies have had an effect. That is probably the most drastic example anywhere. The reason I mention it is because it is or has been our largest market.

Senator HUDDLESTON. DISC is still playing a very important part in your export development.

Mr. BYERS. Yes, Senator, it is. It certainly has helped us expand our production facilities by deferring taxes and so forth. It has been a great advantage to us.

Senator HUDDLESTON. Yes. How do you propose that we ought to go about trying to promote these international safety standards?

Mr. BYERS. Well, with the protectionism that is going on, I think it is going to take more people involved than, for instance, just our industry association. It is going to take heads of government agreeing to open up their marketplaces and agreeing to proceed with establishing safety standards, if that is what they want, that everyone worldwide could meet.

Senator HUDDLESTON. That could be: I guess it could be a two-edged sword. It seems like in this country we are maybe a little stronger on safety standards than many other countries. If we imposed our standards on everybody, the question is, where do we find that common ground that does provide reasonable safety but at the same time would allow the intercountry shipment of particular machinery?

Mr. BYERS. Well, that is very true. There are many countries that do not believe in the safety that certainly we do in this country. It is a difficult problem and I am not sure that I know exactly how to solve it.

Senator HUDDLESTON. Your exports—and this applies to all our exporting companies—in addition to the fact that it does require additional employees, what influence does it have on the price of your product, being able to produce the extra volume that goes to export?

Mr. BYERS. Certainly with the extra volume you reduce your overhead as a percent of sales and therefore you are more competitive in the marketplace.

Senator HUDDLESTON. Therefore, we are benefiting both ways: We are getting a lower-priced product for our own consumers and we are putting people to work.

Mr. BYERS. That is right, and it spreads throughout your whole product. The customers in the United States, which include in our case the Federal Government—we do have a GSA contract to supply mowing equipment—are getting a better price than they would have if we did not have the exports because that helps spread our overhead over a broader base.

Senator HUDDLESTON. Sure.

Mr. Doebling, is your product caught up in this business of high-technology transfer to foreign countries? Do you have any difficulty there?

Mr. DOEHRING. Well, we do not experience the same difficulties as Mr. Byers and Mr. Dove. Mainly our competition as of today is still American competition but a standard is a very, very normal way for countries to impose kind of restrictions, if a domestic manufacturer starts doing something which is similar to your product. We will see probably competition in that respect in 1985. In Germany they started a VDE and an ergonomics—I do not know if you ever heard about it. It is a special way of creating and manufacturing keyboards. They have to be at a special angle, as well as the CRT; the viewing tilt angle has to be in a special way so you definitely have to adapt to those markets because the European market, the Western European market is one of our largest international markets.

Senator HUDDLESTON. Yes. Countries get a lot more concerned about standards after they start producing the product themselves domestically.

Mr. DOEHRING. Well, I think they are using it as a tactic to protect their domestic people in that way.

Senator HUDDLESTON. Sure. That gives them an opportunity to do it.

Do you have a suggestion on how we could develop this procedure on getting export licenses? It seems to me that even before you have an importer lined up there ought to be some way that you could get some type of a blanket approval so that you could move right on. You have to get the importer approved, as I understand it, and then after you get his approval then you get your export permission.

Mr. DOEHRING. That is correct. Basically, what is very hard to understand is that you have to apply for the same country for the

same product over and over, and our orders are in the volume of one and two pieces. Now you can imagine the paperwork; forget about the paperwork but the frustration just for the customer, and that is where the competition comes in as well overseas. Where the distributor says he needs an order immediately, there are short-cuts. You can apply for an emergency export license but I tend to believe what is going to happen is that everybody applies under the emergency clause, and all of a sudden it becomes the standard clause.

Senator HUDDLESTON. Yes.

Mr. DOEHRING. Therefore, what I feel is that a company should be able to qualify their product once and have a license for any particular country as long as they produce the same product. That would definitely help speed up the way of exporting the products.

Another suggestion maybe would be, I feel that a lot of small companies, U.S. companies, are really not aware of how—I am kind of contradicting now—how easy it is to do business overseas. There is a vast market out there internationally, and somehow they are scared. They hear about export licenses and import certificates and banks and letters of credit and so forth, and somehow they feel it is a very hard way of doing business.

As I think we have seen today, Mr. Byers' company is probably the best example that you can excel internationally tremendously if you just give yourself a push to go in that direction.

Senator HUDDLESTON. Well, the hope of this subcommittee and its activity, is to not only change some of the barriers but change the total attitude. In other words, get our producers more aggressive toward the foreign market and recognizing that the potential is there.

Mr. DOEHRING. I had to overcome this in my company.

There was a lot of reluctance to the way of going directly into the international business.

Senator HUDDLESTON. We will have witnesses later on dealing with some of these problems that you have talked about.

Thank you, Mr. Chairman.

Senator BOSCHWITZ. Mr. Doehring, have you talked to the Department of Commerce about the idea of getting an approval once for a particular product and not having to reapply all the time?

Mr. DOEHRING. No, I did not. The only thing that we did, we applied for a distributor agreement which eliminates the import certificate. We do not have to submit the import certificate every time we are asking for an export license.

Senator BOSCHWITZ. One other question I wanted to ask Mr. Dove or any one of you: Do you find that foreign countries have lists like we do? You can go to somebody in the list business in this country and get a list of all kinds of people who are in your kind of business, people who distribute lawnmowers, people who—just virtually any kind of list—people who make this or buy that or might be customers for this kind of equipment. Do you find that kind of a list industry in countries that you trade with?

Mr. DOVE. I have not availed myself of it. If there is such a list, I have not used it, I am not aware of it.

Mr. BYERS. We have used the Department of Commerce ADS service, Agent and Distributor Service, that they have, in trying to

find some customers especially in South America, some potential customers, and we have not yet had any success in that area.

Senator BOSCHWITZ. Thank you very much, gentlemen.

[The prepared statement of Mr. Dove follows:]

STATEMENT BY
M.A. DOVE, JR. - VICE PRESIDENT, GANDY COMPANY
BEFORE SUBCOMMITTEE ON EXPORT PROMOTION AND MARKET DEVELOPMENT
SENATE SMALL BUSINESS COMMITTEE
AUGUST 19, 1982

The Gandy Company is a small family owned corporation located in Owatonna, Minnesota. We manufacture granular insecticide and herbicide applying equipment for agriculture. We've been in business since 1936. Currently, approximately 30 to 40% of our volume is export and we're looking for more.

In your survey the greatest number of manufacturers stated that "Lack of Information" was the most often mentioned problem of a prospective exporter. Within that category the problem of how to find "Potential Foreign Customers and Agents" was a problem for 41% of the small manufacturers. Let's try to bring some prospects to him. I believe that most foreign distributors and agents will come to the United States at their own expense if we sell them on the idea that there is a possibility of obtaining profitable new lines for him to sell. We also have to convince the prospective buyer that the obstacles are not insurmountable. We must create or find a business climate for this individual to walk into.

One of the ways I'd like to meet prospective buyers is through the numerous large domestic agricultural trade shows in which we participate such as-- The Farm Progress Show, The Louisville Farm Show, and others too numerous to mention. The United States has some of the finest National and International trade shows in the world.

Most small business firms will show their goods at these shows every year.

Most of these trade shows have become educational in nature as well as being a display of goods and services.

Many of these trade shows claim to be International in scope in that they invite foreign firms to display and do open the show to foreign visitors.

However, I believe much more can be done.

Many foreign visitors find it difficult to visit appropriate trade shows for a number of reasons, and I'm sure there are more than those that follow:

1. No complete information on the show.
2. Visas to the United States may sound difficult to obtain.
3. To obtain foreign currency and permission to travel, the validity of the travel must proven to the foreign government.
4. Concern about travel and accomodations.
5. Possible language problems.
6. Concern about his personal safety in many of our large cities.

Many of our large trade associations have large enough budgets to develop promotional material such as:

1. Brochures in major languages
2. Slide presentations
3. Housing bureau for foreign guests
4. Convention tour guides and interpreters
5. Give advance information about companies and products that will be at the show.

I believe that a subsidy should be given to major trade shows to develop and provide this type of service.

Our Department of Commerce, through the consulates in foreign countries, could help as follows:

1. Invite businessmen and women to promotional meeting.
2. Offer to aasist with previously mentioned problems.
3. Invite a travel agent to explain special fares and group rates.
4. Arrange for factory tours if the guests are interested.
5. Provide a World Trader Date Report on firms from their country planning to visit the trade show.

Our domestic Department of Commerce personnel could work with the trade show associations as follows:

1. Sell the trade association on the advantages of attracting foreign businessmen and therefore make their trade show a truly international one.
2. Send advance information to manufacturers that are not exporting on how to quote and the information a foreign firm will need in order to buy from them.
3. Provide advance information to all manufacturers on the foreign guests that are arriving.
4. Make advance appointments for foreign guests that are arriving to talk to knowledgeable manufacturers' personnel.
5. Have a seminar the night before the trade show opens for manufacturers not in export business on the do's and don'ts of exporting.
6. Provide a room for a manufacturer to present slides, films, etc. to interested foreign buyers.

The reason that I believe that a program such as this is important is that many of our small manufacturers are afraid that they cannot cope with the differences in doing business with foreigners.

Going to a trade show overseas for a small American manufacturer is very costly and he is not assured of any returns.

When a small American manufacturer is able to visit directly with a prospective foreign buyer, he can determine for himself the prospects of doing business.

The advantages for a foreign firm are numerous. A visit to America is uppermost in the minds of most foreigners. At a large trade show, the buyer can compare many products in the same field. Factory tours and demonstrations can be arranged. The buyer can be assured of speaking with the most knowledgeable factory personnel. Most foreign distributing firms and agents are looking for new lines, and at a large trade show, there will be many choices.

I do not believe the American government should subsidize any of the traveling expense or other personal expenses of the foreign buyer. We should sell the program on the idea that he will be exposed to the largest array of American goods in the field.

The focal point of an effort such as this should be on businessmen, not tourists.

Senator BOSCHWITZ. Our next panel will be Bill Morris, the Assistant Secretary for Trade Development of the Department of Commerce, the International Trade Administration; Mr. Peter Terpeluk, who is the Acting Deputy Administrator of the Small Business Administration; Mr. Alan Parter, the deputy commissioner of commerce, division of international commerce, of New York State.

Senator HUDDLESTON. Looks like you brought the whole load, Bill.

Mr. MORRIS. Thank you, Senator.

Senator BOSCHWITZ. What is this \$60? I saw Mr. Dove mentioned it and I also saw it in the reading material for this hearing, the 60 dollars' worth of regulations that you have to buy. I would imagine that a small businessman would not mind parting with the \$60 but 60 dollars' worth of regulations must be an imposing amount and probably caused some pause on their part; it would in my case.

Mr. MORRIS. In that particular bill, that legislation that set up the export-import licensing, it really needs a tremendous amount of revision and we are working on that right now because it is onerous to the small businessman.

Senator BOSCHWITZ. Sixty dollars' worth of regulations is a lot of regulations.

Mr. Morris, would you proceed?

STATEMENT OF WILLIAM H. MORRIS, JR., ASSISTANT SECRETARY FOR TRADE DEVELOPMENT, INTERNATIONAL TRADE ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE

Mr. MORRIS. Thank you, Senator.

It is a pleasure for me to be here, especially with you two gentlemen. Just last week I was in Paducah, Ky., with Senator Huddleston looking at some new technology in the coal-burning area which I think will be a tremendous boost to this country.

Mr. Chairman and members of the Small Business Subcommittee on Export Promotion and—

Senator BOSCHWITZ. Did he show you any tobacco? He talks to me mostly about tobacco.

Mr. MORRIS. Oh, we examined the crop on the way to the plant-site.

Senator BOSCHWITZ. He told you about every leaf as you went along.

Mr. MORRIS. That is right. He explained the different types.

Senator HUDDLESTON. The chairman is doing his part. [Laughter.]

Mr. MORRIS. Mr. Chairman and members of the Small Business Subcommittee on Export Promotion and Market Development, I am William H. Morris, Jr., Assistant Secretary for Trade Development at the U.S. Department of Commerce. Thank you for the opportunity to tell you about what we are doing to encourage greater participation by small businesses in export.

We certainly share your concern for the relative lack of small business involvement in international trade in this country. Too few companies, and mostly large ones, account for the great bulk of our exports. Small businesses account for more than 80 percent of the jobs in this country while large businesses account for more than 80 percent of our foreign sales.

One billion dollars in exports represents about 31,000 jobs. A 10-percent increase in last year's exports of manufactured goods would have been \$15.4 billion, reducing our trade deficit by half, and would have created about 500,000 new jobs in this country. Such an increase is heavily dependent upon getting more U.S. businesses, particularly small- and medium-sized ones, into exporting.

We estimate that there are about 20,000 companies not exporting that could do so profitably. The reasons they are not are diverse but we agree with the general conclusions of your survey on obstacles to exporting: lack of information or knowledge, regulatory concerns, export financing—these are the predominant problems. These are the same conclusions we came to at ITA when this administration questioned why more small firms were not into exporting.

Frankly, we found that the lack of information started about an absence of knowledge about our programs and services at the Department of Commerce. Our 47 district offices around this country, our export counseling services, our trade information programs, were all among the best-kept secrets since D-Day. If I may suggest, one of the real contributions that we would appreciate you gentlemen making and your colleagues on the House side is to make information available on the help that we can be to business constituents throughout your area.

We have launched some programs and backed legislation to address these issues. I believe we have already made substantial progress in reducing these obstacles, and in other cases we are developing solutions as quickly as possible. Our written testimony addresses these program and initiatives more thoroughly, but I would like to give you a few examples here if I may.

On the most basic level, we found a need for fundamental, thorough, and easy to understand texts on becoming an exporter. Earlier this year, as mentioned at the beginning of the session, Chairman Boschwitz was kind enough to join us in introducing this "Basic Guide to Exporting," which each of you have in your exporting kit. This is the particular document I am referring to. This book is designed to take a businessman step-by-step through all the aspects of exporting and refer him to all the sources and resources he might need to be successful in the undertaking. It removes the mysteries from exporting.

Since bringing this book out earlier this year, we have distributed some 18,000 copies and the Government Printing Office has sold an additional 12,500 copies. The demand remains very high. In fact, at an exporting conference sponsored by a Member of Congress at which I spoke earlier this year, my three sample copies of the "Basic Guide" disappeared before we even had a chance to hold them up before the audience.

In another move to fill the information gap, we have initiated major changes in the structure and emphasis of the U.S. commercial and foreign commercial services. We have combined these two operations, our domestic and foreign field staffs, under a single director general. We have moved more people out of Washington and into the field to spread the word and provide assistance, with increased attention to small- and medium-size businesses, and, I might add, we have reemphasized the business orientation of these

operations with increased recruitment from the private sector and specific business training for every one of our commercial officers.

We are also significantly improving our ability to provide trade information to U.S. businessmen and to their customers, once we have gotten them into exporting. One example which we are just putting into place is the automated information transfer system. This is basically a communications link which will tie together our offices in this country and abroad so that specific information can be readily obtained in a timely fashion. This is designed to answer those questions like how to identify foreign customers and where to go to locate an honest, effective agent to promote a product. The initial phase will be in place in October and the system should be completed by the end of next year.

These are just a few examples of what we are doing to fill the information gap but they represent a broad effort to reach out and make sure that all businesses, big and small, have access to a full range of information and it is thorough, accurate, and timely.

As for the regulatory concerns, that is not an area of my jurisdiction and I would have to defer specific comment to those with the responsibility. I think it is generally acknowledged, however, that this administration is committed to reducing regulatory excess and regulatory delay. I can report that the backlog of 2,200 export license cases we encountered when we took office was reduced to 200 by October 1981 and is now close to zero.

The export regulations themselves are currently being rewritten in simpler, more businesslike language which should help to prevent any future backup and reduce apprehension among the business community. We are also aware of the monetary concerns expressed by the respondents to your survey. The Cabinet Council on Commerce and Trade is currently addressing this issue. The task force commissioned by the CCCT is in the process of pulling together various export financing proposals now being discussed in both the public and private sectors that could complement existing U.S. official export financing programs.

Senator BOSCHWITZ. CCCT?

Mr. MORRIS. The Cabinet Council on Commerce and Trade. I have a hard time with that one myself.

We are looking at suggestions for State export financing facilities such as those being put forth in California, Utah, Wisconsin, New York, and elsewhere. We are looking at private sector export financing cooperatives, ways to improve the supply of credit for small- and medium-size exporters, to improve the marketability of export paper, and a number of other possibilities.

Smaller exporters have special problems in securing adequate access to credit. They usually are dependent on commercial bank credit lines, against which their personal and business assets are pledged. In international trade, repayment terms can typically stretch out to 180 days which is substantially longer than the 30 days customary in domestic trade. Thus, as part of our report to the Cabinet Council on Commerce and Trade, we will be recommending ways in which smaller exporters can secure access to export credit.

There may also be ways to improve existing financial instruments or create new ones. States have the potential for substantial-

ly alleviating the problem of foreign-subsidized export financing by offering new resources for direct loans, interest rate-equalizing programs, and State-based guarantee facilities, or some other mechanism to diversify the U.S. export financing capability. State participation in export finance is at a very early stage of development. No State has yet implemented an export financing program. Mr. Alan Parter, deputy commissioner of the Department of Commerce for the State of New York, is testifying before you in a very few minutes on their proposal for New York which was announced just yesterday. We are actively studying this proposal and other responsible State initiatives as part of our work for the Cabinet Council on Commerce and Trade.

Export financing cooperatives—EFC's—are another area that we are exploring. Lehman Brothers, Kuhn & Loeb, a large investment bank, has developed a proposal for instituting the first exporting cooperative to complement the U.S. official export financing programs. Export financing cooperatives have the potential of attracting new capital resources and offering more competitive rates for medium- and long-term financing for EFC members.

I should digress there a minute and say that the Small Business Administration also has now in place a new export financing program, which I am sure you will hear about momentarily.

This is also a good time to bring up export trading companies. While I am aware your survey attempted to exclude the role of export trading companies from consideration, I really think the potential role of ETC's bears directly on all three areas of concern. The equity role of banks and trading companies, in whatever form it takes, will be an important factor in export financing for small businesses. In addition, of course, ETC's could provide a readily available source of information and expertise and would presumably come between the small businessman and most of the regulatory details that still may be required.

These are essential functions of export trading companies, at least in my concept of them. They would have a definite effect on these three areas of concern we were discussing. We hope there will be final action on the ETC's legislation soon, since we consider this to be a part of the solution to the problems which concern us all.

Now let me turn to the subject of the small business export development assistance program. The Department of Commerce received 287 applications prior to the May 1, 1982, deadline and all were reviewed and ranked according to the rules and procedures outlined in the published Federal Register notice. Following initial review of each application by the district office, an evaluation panel of 10 international trade specialists was convened at the Department of Commerce. The most deserving of these, as rated by these impartial experts, are now under review by the Department's general grants office, the General Counsel, and the Inspector General. As required by the implementing legislation of this committee, at least one grant will be awarded in each of the 10 designated regions. Final announcement of the award will be made by the end of September.

I want to thank you again for allowing me to come before you with this report, and I will be happy to answer your questions. I

would say, as I said in the initial part of the report, one of the most frustrating parts of my job is the inability to convey to the American business community and the United States as a whole, the need, the urgent need for exporting by all parts of the business community in this country. I know I have your support already. I would welcome your suggestions as to how we might do a better job in this effort. Thank you.

Senator BOSCHWITZ. We will listen to the other witnesses first. I am going to have to go to another hearing quite shortly but we certainly invite you, Mr. Morris, to use us as you need to for the purpose of doing just what you are saying, and I am sure that Senator Huddleston would be happy to be of assistance in his own State and other States as well.

Mr. MORRIS. Thank you.

Senator BOSCHWITZ. Mr. Parter, do we have a copy of your testimony by chance?

Mr. PARTER. Yes; you have the testimony, as Secretary Morris indicated, in your packet of information.

Senator BOSCHWITZ. Go ahead, sir.

STATEMENT OF ALAN S. PARTER, DEPUTY COMMISSIONER OF COMMERCE, DIVISION OF INTERNATIONAL COMMERCE, NEW YORK STATE DEPARTMENT OF COMMERCE

Mr. PARTER. Mr. Chairman, members of the committee, my name is Alan Parter and I serve as deputy commissioner of commerce for the State of New York in charge of the international division. My responsibilities are to attract foreign direct investment to the State and to stimulate exports by New York manufacturers and service industries.

I am pleased to have the opportunity to appear before you today to explain New York's efforts in export promotion and to encourage the Congress to initiate and support programs and policies aimed at improving U.S. export competitiveness.

The Federal Government, the State government, and the business community have in recent years become increasingly aware of the vital role exports play in the economic well-being of our Nation. A recent conference board study reported that 79 percent of all manufacturing jobs created in the United States between 1977 and 1980 were linked to exports. Trade statistics for the same period show that exports grew by 84 percent while GNP increased by only 37 percent.

Despite these convincing and impressive statistics and a realization that the revitalization of our economy depends upon greater participation in world markets, the commitment to export promotion does not exist to the extent it should. A great deal more must be done on all levels.

In keeping with its history and tradition as a center of world trade, New York pursues an aggressive program of international trade promotion which clearly demonstrates the importance attributed by our State government to the sale of "made in New York" goods and services overseas. The goals of the State export programs are to get businessmen thinking export, to provide the tools to help

them export, and to create in the international business community a desire to buy products "made in New York."

Increasing exports must be accomplished in two ways: by broadening the base of firms exporting and by improving the sales, the export sales of those firms already exporting. Currently the international division participates in 50 seminars a year reaching more than 2,000 New Yorkers. We advertise in local papers that exports mean profit and you do not have to be an expert to export, and we distribute free of charge our export booklet, "Selling to Foreign Markets." All of these are in the attachments.

Also we have aired public service announcements for TV and radio extolling the advantages of exporting, prepared special export supplements for newspapers, and created a prestigious Governor's award for export achievement, presented annually to successful New York exporters. This fall we will begin a direct mail campaign to State businessmen explaining why it is wise and profitable to export.

Private sector involvement and assistance in promoting exports is provided through our Governor's Council on International Business. This group of 44 prominent international business leaders lends substantial expertise with respect to trade issues and helps develop and expand international business activity in the State. In addition to the State's educational programs, we have developed a hands-on approach to assist in getting the buyer and seller together and then help close the deal.

We supply export leads through our export opportunities bulletins. Last year more than 791 different bulletins containing approximately 100,000 product inquiries were mailed to firms throughout the State. To increase the number of requests for "made in New York" products, we are continuing a direct mail campaign to overseas importers and buyers in 146 countries, advertising in trade journals, and have recently developed a publication, "Products From New York State." This book lists 10,000 products which are manufactured in New York and contains a quick, easy, computerized procedure for the overseas buyer to get his product needs before the appropriate New York manufacturers. The second printing of this booklet is scheduled to be off the presses this month with versions in Spanish, French, German, and Japanese, as well as the original English.

Senator BOSCHWITZ. Do you have a copy of this?

Mr. PARTER. No, that is in such great demand that I only have one copy left. As you can see, I have it here.

While export opportunities bulletins bring the overseas market to New York suppliers, the division's overseas trade program takes New York products abroad. By the end of this year the State will have participated in 41 trade shows, providing 321 firms an inexpensive and effective vehicle for entering foreign markets. In that we do more than just act as an umbrella for State companies sharing exhibition space. Our representatives visit the participant's plant, become familiar with the product, management, and marketing strategy, and the represent the firm at the trade fair.

In an effort to expand on this concept, we have scheduled an exciting new event in which 40 high-tech firms in the State will participate in an exclusively "made in New York" promotion to be

held in the advanced developing countries. In addition to the standard catalogs and samples, we plan to produce 5-minute videotapes on each company, have academic specialists in high technology give presentations, and schedule satellite communication between the buyers at the site and suppliers in New York. This event is perfect for small businessmen who are unable to go abroad because of monetary and time constraints.

Other hands-on programs directed at small businesses which are either already in progress or scheduled for next year are: The small business export assistance program, in which firms selected to participate will have a State international trade specialist act as an account executive, providing day-to-day guidance and assistance much like an export trading company would.

A capital projects hotline will assist the service sector in becoming involved in export. Under this program local agents will be retained in Asia, South America, the Mideast, and northern Africa to obtain information on bids and tenders immediately upon issuance by governmental agencies, development banks, and the U.N. The information would be translated, summarized, and sent via computer to New York to be distributed to potential suppliers such as design engineers, architects, and construction companies.

The most important, ambitious, and exciting program developed by New York State is the creation of a State export financing facility. In a press conference just yesterday, the Governor's panel on export financing chaired by Theodore Sorensen endorsed and recommended the creation of a State export bank.

In the State Commerce Department's study to identify and evaluate export financing problems shared by New York companies, not surprisingly smaller firms were found to have the most difficulty in arranging export financing. The other area of major concern revealed by the study was the relatively high cost and complex paperwork associated with securing FCIA and commercial risk insurance. Our findings were similar to your findings.

With this in mind, the Governor's export finance panel recommended three programs within the bank structure: first, a medium-term discount loan program that would offer fixed-rate financing to qualifying New York companies unable to obtain financing elsewhere; second, a supplemental export insurance program that would help smaller companies obtain assurance of payment on their receivables; third, a short- and medium-term guarantee program that would insure the recourse worthiness of marginal exporters and help them secure export financing.

Based on the consultants' projections, a State export bank could support more than \$1 billion in export sales during the initial 5 years of operation. That level of activity could support as many as 50,000 jobs. The offered programs are expected to be self-sustaining and generate modest dividends. The most likely sources of funding would be through a one-time State appropriation, private investment, and the issuance of tax-exempt obligations or, as we refer to them, international trade bonds.

Profits in the 1980's will be reaped by those firms who can identify overseas markets, be competitive, and aggressively pursue the export transaction. I have outlined New York State's efforts to

assist its companies to enter the lucrative but sometimes complex area of exporting.

There remains a great deal to be done. State and the Federal Government must continue to work together to promote exports by fashioning innovative programs and by overcoming any obstacles or impediments to exporting. We have worked well together in the past but additional resources and commitments are needed to support U.S. firms to enter the international marketplace. As with other governments of the world, exporting must have a prominent place in the economic and commercial strategy of the Nation.

I hope that my comments have been of use to the committee. I will be happy to elaborate on any points or to answer any questions you might have. Thank you.

Senator BOSCHWITZ. Do you want this back? It is your last copy.

Mr. PARTER. It is. I promise to send you the first one off the press. [Laughter.]

Senator BOSCHWITZ. OK, but we are going to have to hustle out in Minnesota to keep up with you guys. I can see that.

Your testimony is very impressive. Thank you for it and for the material.

Mr. Peter Terpeluk, I am going to have to get up and leave. I will read your testimony and will leave the hearing in the very capable hands of Senator Huddleston, and try to get back if I can from the Foreign Relations Committee, as soon as I can.

Senator?

Senator HUDDLESTON. Take care of Radio Marti or we will start exporting ideas down to Cuba. That is the Senator's concern.

STATEMENT OF PETER TERPELUK, JR., ACTING DEPUTY ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION

Mr. TERPELUK. Mr. Chairman, Senator, I am pleased to appear before you today to discuss the Small Business Administration's international trade program and particularly the steps that the agency has taken and plans to take in regard to implementing the Small Business Export Expansion Act provisions of Public Law 96-481.

I will briefly provide an overview of SBA's philosophy and approach to international trade, identify what steps the agency has taken to implement the export provisions of the law, and outline additional measures which we will take in the coming months to insure that the intentions of the legislation and the desires of the President in this area are carried out effectively and efficiently.

I would first like to commend the chairman for the interest that he and the members of the committee have shown in encouraging more small businesses to enter the field of exporting. The "Survey of Findings on Obstacles to Exporting Faced by Small Businesses" which was released by the Senate Committee on Small Business today based on this subcommittee's research, points out many of the real and perceived barriers to greater small business involvement in exporting. They closely parallel the findings of a similar survey which the National Federation of Independent Business did for the Small Business Administration several years ago.

Your study determined that the major obstacle was lack of information. In addition, the expenses incurred in exporting as well as other aspects of financing exports were also major inhibiting factors, as expressed by over 53 percent of the respondents to the survey. Helping small businesses address these very problems is the major focus of our agency's international trade program.

While the Department of Commerce is the Federal agency charged with implementing the international trade objectives of the Nation, we feel our basic role is to help the Department of Commerce and others multiply their services to the small business community. By putting small businesses in touch with private sector international trade service providers, we have no doubt that the export base of the United States can be significantly broadened and a positive effect felt on the Nation's balance of trade and balance of payments positions.

Our regional administrators and district directors have been directed to include specific international trade objectives in their action plans for fiscal year 1983. As regional administrator of region III, I have instructed my district directors in Pennsylvania, Maryland, and Virginia, where there are the largest concentrations of potential small manufacturer exporters, to pay particular attention to this area.

I myself have had meetings with various Federal and State officials and representatives of international trade organizations in Pennsylvania, Delaware, and New Jersey to see what can be done to revitalize the Port of Philadelphia so it can better serve the small business export community in the area. Other regional administrators, district directors, and SBA field personnel have met with bankers, Federal and State officials, local world trade councils, and others to see how we can help them develop an integrated local program of export assistance which meets local needs and maximizes local private sector involvement.

In the home State of your chairman, I might add that our regional administrator, Dick Durkin, has made significant strides to bring SBA into the State's international trade network. Firms within our loan portfolio and procurement automated source system are being invited to various export training programs in order to learn more about the techniques and procedures of international trade. Four such programs are planned for the next 4 months in Minnesota alone. SBA is a member of a State international trade organization and took a very active role in the World Trade Week activities last May.

I would like now to comment on specific actions that the agency has taken and will take in the coming months regarding the Small Business Export Expansion Act.

A most important area—financing. As your survey suggests, there is a great need for small business exporters to acquire the preexport financing they need in order to obtain the raw materials, inventory, and labor necessary to process an export order they receive from an interested overseas buyer.

On December 3, 1981, the agency published for public comment in the Federal Register proposed rules and regulations which would establish a new guarantee export revolving line of credit loan program for small business exporters as outlined in section

112 of the law. After receiving and evaluating the suggestions from small businesses, bankers, and international trade organizations, we published the final rules and regulations in the Register on June 3. I might add there was considerable support for the program.

This week the Administrator wrote a personal letter to the major banks which participate in our regular loan program as well as to the banks which the Export-Import Bank suggested, further advising them individually of the guarantee program. As a result of our Minneapolis office's briefings of major banks in the chairman's home State, I understand that there are already some applications being prepared to be given to our district office in Minnesota.

The second area, our central office and field delivery: The Office of International Trade has been placed under the direction of the Associate Deputy Administrator for Special Programs in order to increase its visibility and insure that the program receives the emphasis it should within our entire organization. In the coming weeks, now that our overall organization is structured to best serve our small business constituency, we will complete our staffing of that office. In addition, I can assure you the program will receive adequate budgetary resources to carry out its functions efficiently and effectively.

The Administrator has instructed each regional administrator to hire, from the outside if necessary, a fully qualified regional export development specialist as mandated in the law. We will have the 10 field specialists on board by October 1, 1982. Currently we have six specialists in place and are presently recruiting the four additional ones. Despite our decreasing personnel ceilings, Mr. Sanders, our national Administrator, feels that this is an area which needs total support.

On August 3, 1982 the Administrator approved the issuance of a specific international trade program standard operating procedure manual which clearly outlines his desires. He has also instructed each agency program head to revise their operating manuals to reflect the provisions of the standard operating manual 90-65 as they relate to their individual areas.

A third area is SBA staff export training. During the period of August through November 1980, 129 management assistance officers and loan specialists, SCORE volunteers with export expertise, and other agency personnel attended a series of five 1-week export training programs. At these programs representatives of various Federal agencies, international trade organizations, bankers, freight forwarders, and others explained the services that they can provide to small exporters.

SCORE—the Service Corps of Retired Executives—and ACE—the Active Corps of Executives—are, as you know, volunteer groups which we call upon to assist small business. Within this organization are several hundred individuals experienced in international trade who counsel small businesses in this field. For the past several years there has been a national SCORE/ACE international trade coordinator who is assigned to the national SCORE/ACE office and works closely with the Office of International Trade to increase the capacity of SCORE/ACE to assist potential and current small exporters. They have developed an export guide for their counselors'

use, and during the coming year will develop and distribute a directory of their volunteers with export/import expertise, so that the volunteers can contact each other to seek specific answers to export problems their clients have.

A fifth area is our SBDC activity. As you are aware, Senator, the small business development center program is a major management assistance program for our agency. We are currently funding international trade centers within these consortia to provide more indepth export assistance through the university and local private sectors. Programs are underway in the States of Alabama, Georgia, and Wisconsin. We anticipate they will be expanded during fiscal year 1983, and indications are that more such small business development center international trade centers will probably be established, as requests are being received for more of the centers to provide this assistance.

Our data base: As a part of their regional action plans for fiscal year 1983, our field offices are developing local export resource data bases of organizations and programs which can provide export service to small businesses. Several thousand such sources have been sent in to the Office of International Trade, where they are being consolidated. This information, based upon 40 key export service areas, will be converted to a word processing based program which will enable the field to identify not only local but regional and national sources of export assistance to small businesses by a simple access system. The system will be updated every 6 months. We will also be able to track what help small businesses receive from the organizations and firms listed in the resource data base.

Small business export training: During early fiscal year 1983 we intend to undertake an active Outreach program to get the message to small businesses that they can be successful in exporting, and private and public sector help is available to them. A mixed media approach will be utilized in a number of cities which have a high concentration of small manufacturers to encourage them to contact SBA and receive our brochure, "Is Exporting For You?"

Intergovernmental cooperation: We are working very closely with our sister Government agencies and departments. On July 1, James Sanders, our Administrator, signed three interagency agreements. One is with the International Trade Administration, which outlines ways in which our respective field staffs can cooperate more closely to serve the current and prospective small business export community without unnecessary duplication of effort.

The other two involve the National Marine Fisheries Service of NOAA and the Foreign Agricultural Service. Under these agreements, the SBA will pay the cost of the participation fees by small businesses in selected overseas trade promotion events of these departments. While we will not pay the per diem or the travel expenses associated with such events, we feel that this will encourage more small businesses to become involved in overseas trade.

Let me assure you, Senator, that we take the mandate of Public Law 96-481 very seriously at the SBA. We will give our international trade program the visibility and emphasis that this subcommittee and the President have requested. We will do it in a partnership with other Federal and State agencies. We believe that this is critical.

There is no question that exports mean more small business jobs, a stronger small business community, and a stronger America.

That concludes my comments. I will be happy to answer any questions.

Senator HUDDLESTON. Thank you very much, Mr. Terpeluk.

I think you gentlemen represent the facets of the major effort that is being made and has to be made to improve exporting opportunities for small business? The two Federal-level agencies and the State's participation. Maybe there is another link that ought to be emphasized somewhat more, and that is the more local approach, what can be done through local chambers of commerce and local trade associations.

However, there is one thread that seems to me to run through what you are all saying. That is the question of information and communication, and how we get the proper information to the right people at the right time. Mr. Morris, the packet that you have submitted is very well done, and while I have not gone through all the components of it, I feel certain it pretty well covers most of the questions that a potential exporter would need answering and perhaps tells him where he can get the answers to other things that he might want to know.

My question is, how is this made available to those so-called 20,000 potential exporters out there that are not now exporting? How do you advertise the availability of this?

Mr. MORRIS. From October of 1981 through June of 1982, just to give you an example, we held 1,549 seminars in cities of 50,000 or less in this country, and we held 2,800 conferences and seminars in cities above 50,000 in that same period. We reached approximately 141,000 people in those seminars. On top of that, we worked with the congressional delegations and held 20 Federal procurement seminars, which are a combination of how you get to sell to the Federal Government as a small businessman and how you export. That is, I guess, one of the main thrusts that we use.

The other thing we do—

Senator HUDDLESTON. Are these packets available to each person who participates in those seminars?

Mr. MORRIS. Except for the "Basic Guide to Exporting," which costs \$6.50.

Senator HUDDLESTON. Is that the only item in there that you are charging for?

Mr. MORRIS. Yes, sir.

Senator HUDDLESTON. How do you get requests for that?

Mr. MORRIS. Through the seminar, in which we promote this; through our district commerce offices, the 47 offices; but I would be less than honest if I did not say we have 360 people, 366 people in the whole United States to promote exporting, so you can see what a formidable task that is.

What you really need, we find, in the small- and medium-size companies you almost have to go sit across the desk from that person and take him by the hand and lead him across that first obstacle.

Senator HUDDLESTON. That seems to be the real question: How do you generate the interest and the desire? That is the first step.

Then, the second is, How do you give him the information he needs once he takes the bait, so to speak?

Mr. MORRIS. We need the American banking community at least to take a more active part in promoting international trade.

Senator HUDDLESTON. Are you doing anything with the banking community?

Mr. MORRIS. We have ongoing meetings with bankers all over the United States to promote this. The problem is, when you leave the major money centers—like Louisville, if you will—and go to Paducah, you run into a problem that there is a lack of knowledge in that small banking community about the various methods of international trade that we are trying to overcome, but it is a long process. We certainly need national trade organizations to help us do a better job of promoting, through their particular trade areas, the need for exporting.

Senator HUDDLESTON. Do you see this development that Mr. Parter described for us in New York, the State export bank, as something that would apply to other States?

Mr. MORRIS. I whispered to Mr. Parter while Mr. Terpeluk was testifying that if we had 50 States like his, we could close up shop in the Commerce Department trade area and let it be done that way. I think it is marvelous what they are doing, and there are some other States equally as good, but it is not a uniform effort.

Senator HUDDLESTON. Would that be the kind of thing that could be applicable to Kentucky? Couldn't the Louisville and Lexington bankers join together and extend that availability out to Paducah?

Mr. MORRIS. I would hope that what they are doing could be imparted to your economic development people in Kentucky.

Senator HUDDLESTON. All right. Now we occasionally heard a complaint that it takes a long time to get information out of the Department. Have you investigated internally the turnaround time for requests that come in to you for either the various pamphlets or other specific information?

Mr. MORRIS. I think—and we just have to hope that you are getting the right information—I think that we have eliminated that delay. We are trying to do less in the Washington office and move more of it to the field because the small businessman really gets—hell, I get lost in Commerce building, so the small businessman going into that big building, we lose him. Where we need for him to go is to Louisville or to one of the State offices, and we have moved 75 people out of Washington into the field to disseminate this kind of information. I believe we are in a much more timely mode than we have ever been and with the information transfer system that I mentioned in my testimony, we will be computerized in the district offices so that we can give a man information momentarily rather than with a week's delay.

Senator HUDDLESTON. Do you have a position on the export trading company legislation that is pending before Congress? Do you think it will adequately assist small businesses?

Mr. MORRIS. Senator, I think it would be one of the best things that Congress could do to help the small or medium size exporter. It will not be a panacea but there will be opportunity for the first time for small companies to band together with bank ownership

and provide, I think, competition to some of the Japanese trading companies that have been eating our lunch, if you will.

One of the areas that I see in your State particularly is the coal mining industry because historically coal producers are small- to medium-size producers. If they can band together with an export trading company concept, have bank participation and compete with the majors, if you will—similar to what in your State, by the way, has been a development that has been really unusual, the cooperative coal mining effort that you all have put together. It is the only State in the Nation that has done that sort of thing.

Senator HUDDLESTON. Right. We have, incidentally, sent trade missions abroad representing groups of small producers. I do not know what success they have had yet. There are some indications they have picked up some orders and we will see some sales from it.

What criteria are used to evaluate the applications for grants that are submitted pursuant to the Small Business Export Development Assistance Act?

Mr. MORRIS. We laid out a whole series of information that was required of the applicants but you can really boil it down to their ability to bring new, small- to medium-size companies to exporting. Of the 200-plus applicants we have, almost every one of them treated that. The difference in the degree of their ability to meet those requirements, in our judgment, will determine who will be the top group. It looks like now there will be approximately 16, depending on what the Inspector General and counsel and so forth have to say.

Senator HUDDLESTON. What has been your experience with the one-stop shops that were mandated pursuant to Public Law 96-481?

Mr. MORRIS. We established two of those pursuant to that law. We have not found them to be worth the additional expense. We believe that in working with the Small Business Administration, the Overseas Private Investment Corporation, and the Export-Import Bank, that we can do it better as we now have it constituted in the various district offices rather than going through the extra expense. Particularly, in one of those offices we were averaging less than 20 applicants a month and it is just not economically feasible under that kind of situation.

Senator HUDDLESTON. Not enough workload for the number of people you had assembled there?

Mr. MORRIS. No, sir. We are going out to call on the people that we have identified. We have to go sit in that person's office, across from his desk, in many instances. We set a goal of 900 new exporters in this fiscal year, companies that had never exported, and through the end of June we had hit 726. Those 726 had consummated \$151 million worth of additional sales.

Senator HUDDLESTON. With our economic situation right now, including high interest rates and unemployment, one of the things that has not been given as much attention as it probably should, has been our balance-of-trade deficit. Do you have, or do you attempt to make, any analysis or quantification of just what that means to our economy, when we are running the kind of deficits we are?

Mr. MORRIS. Yes and no. It is obvious to all of us that the job loss is unbelievable. Of that deficit of some \$30 billion, almost \$20 billion of it is with Japan. I think you know that we are taking on the Japanese in a frontal attack, if you will, to try to break down the tariff barriers, some of which have been mentioned earlier this morning in the testimony. It is a long, time-consuming process.

In other countries of the world we are seeing, particularly because you have an economic downturn worldwide, content legislation being advanced, as the gentleman mentioned in the lawnmower engine situation. Part of the problem is the economic downturn in which all countries start tightening up their restrictions.

Senator HUDDLESTON. Yes, but we were already experiencing a deficit before the downturn really started, at least to the extent that it is now. Of course, a lot of that was oil.

Mr. MORRIS. I was fixing to say, you cannot subtract this but if you subtracted oil from our imports we would have a positive factor in the services area and only a slightly negative factor in the manufacture area.

The services area is where we see our greatest opportunity, that and in high-technology, insurance, banking, tourism, and so forth, in the long term for this country.

Senator HUDDLESTON. Yes. Now some foreign countries, I understand, have outstanding export promotion programs targeted toward their small firms. Does the ITA ever consult with other nations to discuss export promotion programs?

Mr. MORRIS. Well, we discuss with them—we do not get down into the details of what they do to promote. We spend most of our time trying to figure out ways to open up their markets.

Senator HUDDLESTON. Therefore, it is kind of a competitive situation and you do not deal too much with a competitor.

Mr. MORRIS. Yes.

Senator HUDDLESTON. Mr. Parter, I think the indications you have made that your program could result in 50,000 new jobs just in the State of New York indicates what the potential is nationwide for aggressive export promotion. First of all, you are a State-financed operation. Is that correct?

Mr. PARTER. That is correct.

Senator HUDDLESTON. It is statewide. What has your relationship been in dealing with the Federal agencies relating to this area?

Mr. PARTER. We have worked hand in hand with the Federal Government. We have programs that complement one another and we also have programs that go their separate ways. The seminars that both Secretary Morris and I spoke about are often done jointly. The information, materials that we deal with are obtained and shared. We try to get the outreach together. We have nine district offices in New York State, and when possible we try to help the local U.S. commerce district office in their outreach and similarly, so there are very many programs that we work on together. We have also, since Secretary Morris came on, had regular meetings with not only New York but with all the other States to try to improve that communication.

Senator HUDDLESTON. You do have a relationship with the other States?

Mr. PARTER. Yes. We work through organizations such as the National Governors Association and NASDA, the National Association of State Development Agencies, both of which have international branches and advisory committees so that we try to keep track of what one another is doing. Your State has its international office in New York. Mr. Robert Manase, who represents your State, works with us, so that we do try to communicate as much as possible.

The States are doing two things in this area: They are working on trade and they are also working on direct investment. In the area of trade we are not competing to the degree that we are in direct investment, so that you will find a great deal of cooperation. In the area of direct investment we are a little bit more close-mouthed.

Senator HUDDLESTON. I can understand that. Do you find these relationships with Federal agencies to be helpful and productive?

Mr. PARTER. I think they are absolutely necessary, yes. There is always room for improvement. There is always extra commitment that can be made, but we are all running our own programs and are usually so understaffed and undermanned, and have problems with resources, that we spend most of our time trying to get our programs working well. Therefore, we cannot spend as much time with communication as we probably would like to or as would be useful. However, when there are faults in that area we try to work them out.

Senator HUDDLESTON. Do you have any quick suggestions on how either Commerce or SBA could be more effective in dealing with you, suggestions that will not cost any money, hopefully? [Laughter.]

Mr. PARTER. Rarely anything that does not cost money. Before I get to Commerce and SBA, I would say that the area that would be most helpful would be the serious consideration of the Export Bank proposal. We are trying to do it and we will proceed on our own with a State appropriation and private sector money but to really be successful, it is essential that we have the international trade bond and that is something that must go through the Congress, Treasury and Commerce. We have been making our arguments to Federal officials and we have gained the support of Ambassador Brock, and we have spoken to others as well. The area that is of most concern to us at this particular time would be a quick and active and positive attention paid to our requests on international trade bonds.

In terms of other areas, one of the businessmen earlier mentioned trade shows. That is an area that we constantly review. It is very helpful for us when the Federal Government takes a position in a particular trade show, although we are not limited to those shows that the Federal Government participates in. However, there could be improved working together and reduction of costs.

Senator HUDDLESTON. Are those shows both in this country and abroad?

Mr. PARTER. We participate mostly in shows abroad. Actually, we have done two shows, we have done an apparel show in New York and a food show in New York, but our international division really concentrates on shows abroad. In the questions you asked earlier, I

happen to agree with you that you have to go to the buyer, you cannot wait for him to come to you. All of our programs are aimed and directed toward an aggressive approach, and in the 41 shows that we have participated in, we have been able to bring these 320 firms abroad. If they could represent themselves, fine, if they could not, we would represent them, get them an agent or distributor or whatever, and help them break into the new market. Therefore, that is a key to our program.

Senator HUDDLESTON. That State export bank, how is the bank actually being organized?

Mr. PARTER. Well, we are talking about very recent decisions but it will be probably a public benefit corporation set up in the State of New York, with a \$25 million appropriation by the State and \$25 million set forth by the private sector financial community, insurance companies, banks, et cetera. With that \$50 million in equity, it is hoped that we will borrow to the extent of about \$200 million, giving it a total fund of \$250 million. A 4-to-1 loan ratio is really quite conservative; banks are about 20 to 1.

With that \$250 million, turning it over on a 5-year basis, we expect that we can help finance approximately \$1.3 billion in exports, hence, using the figures given by the Commerce Department and the Wharton Economics Department, taking an average between those, we figure that we can create up to about 50,000 jobs.

Senator HUDDLESTON. This will be a revolving fund, and the repayments will stay in for future loans?

Mr. PARTER. That is right. The programs as they are set, the medium-term discount loan is directed primarily at small- and medium-size firms. Unfortunately, with the cutbacks of Exim, the availability of money as well as the availability of fixed rate loans are both questions of concern to the exporter. The medium-term discount loan program is the one that is being cut back the most drastically by Exim. As a matter of fact, there is discussion of eliminating it entirely. Therefore, we feel that on a State level we can get to the small and medium size businessman probably better and more easily than the Federal Government.

Senator HUDDLESTON. Will you have an interest rate concession?

Mr. PARTER. Well, that again depends upon how we get our financing. If we can blend our equity of \$50 million with the \$200 million borrowed, we will have loans at a certain bit below prime. Also economies of scale will enable us to have a reduced rate but the real secret is the ITB's which will allow us a tax-exempt bond that can bring the rate down even further and make it competitive. We do not plan on being competitive with the foreign countries. They can do much more than we possibly can. We cannot compete with the French Eximbank and the Italians and the Japanese interest rate but what we can do is bring it down to an area where it would be reasonable. Therefore, the uniqueness of the particular product or the quality or the ability to get it out quickly can make our product competitive where, when there was a 4 and 6 point spread in interest rates, there was just never any question.

Senator HUDDLESTON. Will the management of the financing bank be set up as a separate entity?

Mr. PARTER. It will be set up as a separate State export bank, managed with a rather small staff that would take care of the

medium-term discount loan, and that would be done through commercial banks, the lending would be done that way. The guarantee program would be done through an umbrella FCIA insurance policy and then we would help do the paperwork that the small businessmen are having difficulty with. For the recourse worthiness program, the paperwork would be done and the administration would be done within the bank.

We would charge for that, and we expect that with the charging and the availability of low interest funds we would be able on a 5-year projection to make a modest profit.

Senator HUDDLESTON. Is this State appropriation anticipated to be a one-time appropriation?

Mr. PARTER. It is, right. Again, we are at the earliest stages. The Governor yesterday took the report and he will then be presenting it to the legislature, and we are going to have to get that money and—

Senator HUDDLESTON. Do you think there will be any necessity for the State to contribute to the operating expense of the bank?

Mr. PARTER. As it is planned now, no. There would be the one-time appropriation, as there would be a one-time subscription, hopefully to expand through the ITB's. If we were unable to get the ITB's, we would have to—as the bank grew—we would have to try to figure out how else to get financing. It could possibly be done through the Ex-Im Bank. They might be interested in entering, and the Port Authority of New York and New Jersey, there are other sources that we would try to get but none of them amount to the potential that the ITB does.

Senator HUDDLESTON. Now it seems you have developed and brought with you a very interesting packet of information. How do you disseminate it?

Mr. PARTER. In similar ways to the Commerce Department. We are lucky in that we have a slightly more defined universe, and we can do the advertising and public relations through TV and ads such as those that you have in front of you. We try very hard to keep our items free, and our book is disseminated free, as is our export opportunities bulletins. This is also a very good way to disseminate information because we have 11,000 New York firms who are on the mailing list who have expressed an interest in exporting. As a matter of fact the Export Opportunities Bulletin is the most distributed piece of material that our State commerce department has. We sent out some 725,000 copies in this last year, and we disseminate information through it.

We also do it through the seminars, and we try to use the local agencies. We cannot do it alone. We are—

Senator HUDDLESTON. How do you compile your mailing list?

Mr. PARTER. Through the world trade clubs in the various areas, the chambers of commerce, the export trading companies. We have through the Department of Labor a computerized list of all the manufacturers and we do direct mail to them when we can.

Senator HUDDLESTON. Do you have an active relationship with the chambers of commerce in the various communities?

Mr. PARTER. Yes. We have a relationship with them. We do not have the resources, monetary resources to subsidize the seminar program, so that what we do in most cases is to try to get the local

groups to organize it and then we send out manpower and materials to get the point across, but that is a limiting factor. You tend after a while—and I do not know whether the Secretary would agree with me—you tend after a while to be reaching the same people in seminars; after you have done it the third year and three times in Rochester, it loses its cachet, and therefore you have to try other approaches. You have to get it into the direct mail approach or you have to get it on the TV or you have to get something like the Export-Import Bank drawing attention to it, or the export trading company legislation. I happen to agree that the export trading company legislation, while it will be helpful, is not going to be an overnight star. It is going to take a long period of time but where it has been useful is in drawing attention to exporting.

Senator HUDDLESTON. These various methods of communicating, whether it is your TV, radio, newspaper, or direct mail, could you rate which ones may be more effective or can you differentiate between them?

Mr. PARTER. Direct mail is always the best. This is not—I am switching topics a little bit—with this "Products from New York State," we gave this free abroad. This does not go within our State. It lists the 10,000 products that are manufactured there, and then the particular overseas buyer can fill out the computer form and it gets directly into our export opportunities bulletin.

We did a direct mail campaign abroad and we did advertising abroad, and we got about 60,000 requests for this. Of that, the great majority were direct mail, and that is true locally as well. It is a much more effective way of getting to the correct person within the firm. You do not always want to speak to the CEO. Sometimes you want to speak to somebody else, and if you can direct it and target it through the lists, that is the best way to do it.

Senator HUDDLESTON. How do you make sure that your brochure that is going into, say, Germany or France, is properly prepared for that particular country? Is there a place to go to see that the translations are correct and it is printed in a way that appeals to that particular country?

Mr. PARTER. We are fortunate in New York that we have a large resource of people to call upon in the public relations field and the translations field and all of the service areas that are becoming so important to export. We also have staff that are capable of doing it but with this particular "Selling to Foreign Markets" we put together, our own staff put together the text within 30 days and then went out and had a design firm do the design and got it out. We did that internally. We do much of the translation internally with our own staff but there are associations and groups and private sector organizations that are helpful in that.

Senator HUDDLESTON. They could also be available to any other customer anywhere in the country, of course, for a fee.

Mr. PARTER. That is correct. As a matter of fact, they would like to be.

Senator HUDDLESTON. However, that seemed to be one of the problems we encountered from small businesses in earlier hearings. They did not know where to go to make sure that they were getting the message they wanted to the country in the proper way.

Mr. PARTER. Well, we feel that getting the message across in the correct way is essential. A good example of what we have done, and any other State could do this, is that when we are advertising in Japan we no longer use an American firm. We use a Japanese firm, so that the concepts are first drawn up in Japanese, translated into English, and then we discuss them. Therefore, whenever possible we try to use the resource that is most effective.

Senator HUDDLESTON. Yes. Thank you, Mr. Parter.

Mr. TERPELUK, your testimony outlines the interagency objectives and the goals and future targets for small business export assistance. In looking at the actual record, why has it taken the agency almost 2 years to assign one full-time export development specialist to each of the 10 regional offices?

Mr. TERPELUK. Well, I think it was a combination of reasons, Senator. First of all, we had a little bit of a transition within the agency itself with the change of administrations within the agency. I think we had to do our own homework internally and decide which direction we were going to take with the delivery of it, and then turn around and put on board the type of people that we wanted to carry out that mission.

Now that we know where we are going, now that we know what type of direction we want to take this effort, we are looking for a particular type of person in the field.

Senator HUDDLESTON. What is the status of that effort now?

Mr. TERPELUK. Well, the effort now is a good one. We have most everybody on internally in the central office. We have a few more people to put on. Six of the people were hired in the field and the four that are remaining are in the process of being hired right now.

As a matter of fact, what has happened on some occasions, Senator, is that we have readvertised, if we are faced with a situation where we are not going to get the person we think fits that particular area. An export specialist may be a different type of individual in terms of backgrounds and qualifications in, say, our New York region than in our Denver region.

Senator HUDDLESTON. Do you have any idea how many small businesses SBA has actually assisted in exporting?

Mr. TERPELUK. Actually assisted? For example, last year it was about 9,000 and it will probably reach about 9,000 this year. This is contacts with small business people on export issues. In the training area it is about 22,000.

Senator HUDDLESTON. What is your assessment of the possibilities of the one-stop shopping program? Is this something we need to revisit?

Mr. TERPELUK. Yes, I concur with Secretary Morris' remarks. I think what we have here is another layer that just may not be necessary. We at the SBA obviously are a field delivery agency. We have many field offices, and I know the Commerce Department does, too. I think that if you have the interdepartmental cooperation, the capacity that should be, you may not need one-stop shopping.

Senator HUDDLESTON. Could you accomplish it by each of your offices and each of Mr. Morris' offices having someone that at least can direct the person? If he has to go from SBA over to Commerce

or vice versa, can you direct him specifically to where he ought to go and who he ought to talk to, and eliminate this business of passing the buck and saying, "Well, you have to go to Commerce to check that out." Do not tell them where in Commerce?

Mr. TERPELUK. I think that that is probably right. Our immediate major mission is trying to get our people that are in the field on a so-called first name working basis with the Commerce Department's personnel in the field.

As we both grow, especially us, in this particular area, Senator, I think that is going to happen almost automatically. I just might add that I think we have a unique role at the SBA in this particular area. I see us as a facilitator. I see us as a catalyst. I see us as an educator. I think when it gets down to the actual, hands-on type things that the Secretary referred to, a lot of that is going to be done in his department or the State commerce departments or other organizations of that nature. If the small businessperson has a friend at the SBA, well, the SBA should be able to direct them in the proper place for help. If our people are going to be able to do that, they have to have a pretty strong working relationship with everybody in these various areas.

Senator HUDDLESTON. Yes. I think if you could just be specific when you make that recommendation as to where they go and who they see when they get there, it would probably facilitate it a great deal. I think you have both made some pretty good points about the one-stop shop. It may be an idea that we should look at a little closer.

As I understand it, in fiscal year 1982 SBA has made seven guaranteed loans for exporting, totaling a little over \$1 million. Of these, one loan was converted into a revolving line of credit loan in June. Since the authority to make revolving line of credit loans for exporting has been on the books for almost 2 years, don't you think this indicates a lack of interest in export promotion on the part of SBA?

Mr. TERPELUK. No, absolutely not. I again want to go back to what the Secretary alluded to earlier. We have an education problem. The Secretary admitted that the Commerce Department faces the same problem with the small businessperson, and I think if we are going to get that program—especially the guarantee line of credit program—moving, Senator, we have to address an additional area which, to be quite frank, we have not addressed yet. I think we are going to have to make a major effort in educating the banks and developing a relationship with especially the certified lenders that are doing business with us right now. We should have a very immediate understanding in our field as to which banks are receptive to this type of business, and I think we have a little bit of leverage, so to speak, to bring that relationship about.

However, I do not believe it indicates a lack of interest. I think we are going through the same educational process that other people are.

Senator HUDDLESTON. Yes; now we have seen the kind of information that the other two gentlemen are making available and sending out. Does SBA have any outreach or other programs that are attempting to identify those people that might be interested as potential exporters?

Mr. TERPELUK. Yes; as I mentioned in my opening statement, what we are going to do is pick 5 to 10 cities on a pilot basis. We have brochures printed already to just more or less stimulate the idea in the mind of a small business person that this really is a direction that he or she should go into, and we are going to do that through media and direct mail. I was very happy to hear that the direct mail in the New York experience is by far the best way to go.

Senator HUDDLESTON. Now in addition to Commerce, obviously, what other Federal agencies is SBA working with to multiply their services as you indicated for the small business community?

Mr. TERPELUK. Well, the Department of Agriculture is one. The agreement we just signed last month with them obviously is just getting underway but we think such activity is going to bring about more intergovernmental cooperation. To be honest with you, Senator, as a person from the field who is down here on this side of the fence now, the answer to these problems we are discussing here today all lies in the field.

Senator HUDDLESTON. Yes; that is where the action is, isn't it?

Mr. TERPELUK. That is where it is.

Senator HUDDLESTON. We used to say in the radio business that all sales are local.

Mr. TERPELUK. You know, it is nice to enter an intergovernmental agreement with another agency here in Washington but the bottom line is, we have to be working together in the delivery in the field. I think that is the thing we have to work on strongly.

Senator HUDDLESTON. Right. What types of directives or instructions are contained in Administrator Sanders' new international trade program standard operating procedures manual?

Mr. TERPELUK. Well, I think it is basically the philosophy that the administration is taking, together with the intent of the law. We are looking, as I said, in three general areas: We want our field people working, as a facilitator, educator, and catalyst.

The guaranteed line of credit program is another one, and it is one that as a result of the statistics you alluded to here at this hearing, we are, I think, going to have to come up with an internal program on how to start educating the banks.

Therefore, I do not want to leave the impression that we are the problem-solver for all the small business person's export needs but I think there is a role for us to play, and I think if we are going to be the networker and the catalyst, it is one that we can deliver on.

Senator HUDDLESTON. Thank you very much.

[The prepared statements of Mr. Morris and Mr. Terpeluk follow:]

STATEMENT OF WILLIAM H. MORRIS, JR.

ASSISTANT SECRETARY

FOR TRADE DEVELOPMENT

TESTIMONY BEFORE THE SENATE SMALL BUSINESS SUBCOMMITTEE

ON EXPORT PROMOTION AND MARKET DEVELOPMENT

AUGUST 19, 1982

Mr. Chairman and Members of the Subcommittee on Export Promotion and Market Development of the Senate Committee on Small Business, I am William H. Morris, Jr., Assistant Secretary for Trade Development in the United States Department of Commerce. I am pleased to represent the International Trade Administration to speak with you about what we are doing to encourage greater participation by small business in exporting.

The topic of the Subcommittee's hearing is of great importance to our nation's economy and to the United States efforts to increase international trade. According to President Reagan's 1982 report on the State of Small Business, small firms accounted for more than 86 percent of new jobs from 1969 to 1976. The important role of small business in our nation's economic growth must be recognized.

Similarly, the role of small business in expanding United States exports and improving our international trade posture is increasing and must also be recognized. The Department of Commerce estimates nearly 20,000 small firms are not exporting that could be doing so profitably. The Reagan Administration is troubled by this. This puts us at a serious disadvantage vis-a-vis our foreign trading competitors whose small and medium-sized companies are much more involved in foreign trade.

Since each one billion dollars in exports represents about 31,000 United States jobs, it's easy to see what even a small increase in exports could mean to our economy. A 10 percent increase in last

year's exports of manufactured goods would have been \$15.4 billion, almost half of the 1981 trade deficit, and we would have created almost 500,000 new jobs. Small firms, however, tend to regard selling overseas as a riddle and are not prepared to undertake the additional costs and risks.

The Department of Commerce has programs to overcome some of these inhibitions and make it possible for more small businesses to go into exporting. My particular area within the International Trade Administration, Trade Development, is responsible for assisting United States firms in exporting goods and services through our information and promotion programs and activities.

We realize that small businesses need assistance to determine how to begin an export program, what markets to enter, and where to go to find assistance. We have published a very useful tool to provide a step by step approach to exporting for United States small business firms called A Basic Guide for Exporting. The Basic Guide describes in common business language what is needed to establish profitable export trade and where and how to receive assistance, both private sector and government. Since December 1981, we have distributed some 18,000 copies of the Basic Guide and the Government Printing Office has sold an additional 12,500 copies. Almost 86% of the Basic Guides are used by small and medium sized firms.

Information Services

A variety of export information products and services are available to assist the United States business community in its efforts to export. These services are designed to respond to the expressed needs of small, medium and large United States firms that are interested in penetrating and developing overseas markets:

- ° Detailed information about individual foreign customers and agents;
- ° Lists that identify prospective agents, distributors and buyers;
- ° Specific export leads; and
- ° Research studies enabling United States companies to assess the marketability of United States products in specific foreign countries.

World Trader Data Reports are individual reports on foreign firms, available by subscription for \$40 per year. They describe commercial activity, management, credit experience, commercial standing, size and reputation. The overseas posts of ITA's Commercial Services prepare the reports at the request of United States firms.

Export Contact Lists are produced from a database of over 140,000 foreign firms prepared by the Foreign Commercial Service (\$15 per customer plus 12 cents per name on the list). The lists are available in two forms: 1.) Export Mailing Lists, and 2.) Trade Lists. Export Mailing Lists are specialized lists tailored to the marketing needs of the United States exporter in terms of country, product and type of contact/firm of interest such as buyer, agent or distributor.

The Agent Distributor Service assists United States firms in locating agents and distributors abroad for a cost of \$90 per market. Firms provide sales literature and catalogs which Commercial Service officers use to identify up to six foreign firms who are interested and qualified to represent the United States firm's product.

Trade Opportunities Program delivers approximately 18,000 current, specific export opportunities to subscribing United States firms each year. The leads include foreign government calls for bids, representation offers from private foreign firms, and direct sale opportunities to private foreign firms. The information is available via the TOP Notice Service (\$37.50 for 50 leads plus \$25 initial set up fee) and the weekly TOP Bulletin (\$100/yr.).

New Product Information Service offers innovators of new products the chance to advertise in United States embassy commercial newsletters worldwide for a cost of \$25. Firms provide references, photos and literature describing their new product. The material is then translated into host country languages and delivered to embassy commercial contacts. Selected products are also advertised on Voice of America Radio.

International Market Research (IMR) services are provided to assist exporters and potential exporters in selected United States industry sectors, and others having a need for and interest in overseas marketing information. IMR services include market reports prepared overseas by private firms under contract to ITA or by FCS posts and are based on research specifications prepared by ITA. These reports are currently distributed free or are provided at a nominal charge through the National Technical Information Service.

In addition to providing these services directly to United States firms, much of this information is made available to state-level development agencies and to private-sector information vendors. For example, the Trade Opportunities Program provides a weekly and a bi-weekly tape service to a number of states that have systems to disseminate trade leads direct to companies in those states; both the Trade Opportunities Program and the Export Contact List Service provide computer tape services to firms such as Lockheed DIALOG,

which make the information available to their customers. We estimate that from 20,000 to 25,000 United States firms receive ITA-generated information through these state-level and private-sector sources.

Small Business Utilization

Approximately 60% of the over 20,000 United States companies that obtain these services directly from ITA have fewer than 100 employees. Both in developing these export information products and services and in setting user fees for them, we are particularly mindful of the needs of the small company.

The International Trade Administration is striving to more effectively meet United States companies' needs for export information. In recent months, we have taken several important steps to increase United States companies' awareness of and access to export information and services:

The Automated Information Transfer System (AITS) is being implemented rapidly. By the end of this year, we will have sophisticated computer equipment installed in 36 District Offices and 37 Foreign Commercial posts overseas.

Telex equipment has also been installed in all ITA locations for direct communications here and abroad. When fully developed by the end of 1983, and expanded to about 120 offices and posts, this system will increase ITA's timeliness and productivity in processing and communicating information. AITS will greatly enhance United States companies' access to export information. In addition to facilitating access to the information and services, AITS will also link to private-sector export-related data services. Continued enhancement of machine capabilities over the coming year will introduce new efficiencies into the delivery system not now possible and will permit more and new information products to be computer generated on a more timely basis.

These measures are just the beginnings of a new, greater commitment in meeting United States firms' needs for export information.

Export Promotion Activities

A number of overseas promotion activities are available to assist small businesses to establish themselves in foreign markets:

The Trade Mission program provides a unique opportunity for a small business executive to meet potential agents, distributors and buyers in countries where the company has no commercial contacts. I personally led a Coal Export Mission of 27 business and industry representatives, many of whom were small exporters, to Spain, Italy, France, and Belgium from May 19-28. The objectives of the Mission were to demonstrate that the United States is a secure, reliable coal supplier.

The Coal Mission was highly successful both in the view of the private sector participants and in the institutional sense of carrying the message of United States coal exporting capability on an official level.

We presented the "Road Show" on coal Exporting capability to more than 450 energy officials, coal buyers and users in Madrid, Rome, Milan, Paris and Brussels--many more than expected. The coal producers on the Mission held more than 400 separate buyer/seller meetings--also more than hoped for.

More than 30 requests for price quotations or bids came out of these private meetings--for what could be as much as 2.9 million tons of coal and all private sector participants are optimistic about long-term prospects.

We also sponsor Industry-Organized, Government-Approved Trade Missions. These are groups of business executives organized and led by non-Federal Government organizations such as trade associations, state development agencies, chambers of commerce and similar groups. We sponsor about 6 state organized Trade Missions a year. The Commerce Department provides assistance in mission preparations and support by our overseas posts.

One example of export promotion activities designed specifically to aid small businesses to obtain market exposure and develop contacts overseas at a minimal costs are the Catalog Exhibition and Video Catalog Exhibition Programs. Requiring no expenditure of time or money by a company marketing executive, a firm that has no expertise in exporting can investigate the market for its products in one or more countries at low cost. Thousands of United States firms, 85-90 percent of which are small, have taken advantage of this program to gain their initial exposure in an overseas market.

The Commercial Services

A new streamlined management structure is one of the tools we have put in place to improve customer service to exporting small businessmen. For improved administration and management we have combined the United States District Offices located in 47 major cities with the overseas posts in 66 countries where United States international and economic interest are of major importance.

They now operate under central management which reports direct to the Under Secretary for International Trade. We feel this will produce economies of scale, improve services to our customers, and contribute to our export expansion efforts.

We have placed a new emphasis on identifying trade opportunities targeted specifically to small businesses, and directed toward increasing the number of small and medium-size businesses to export. The goal for our district offices this year is to increase by 900 the number of new-to-export firms, and to increase by 2,700 the number of new-to-market exporters.

What kind of results have we seen?

By the end of June 1982, we reported 767 new-to-export firms had completed sales of \$196.6 million, and a total of 1,452 new-to-market exporters reporting sales exceeding \$919.5 million. This represents well over \$1 billion in sales and about 35,000 jobs in the United States.

To make our United States field offices and foreign commercial posts more effective and attuned to changes in the marketplace, we have redirected their efforts so 60 percent of their time is spent servicing small exporting firms. And we have also redirected the emphasis of our recruiting efforts for foreign commercial officers to recruit candidates with private business sector experience... strong candidates who have everyday experience in international business.

More than half of those candidates offered career appointments last year originated in the private sector, and we expect that proportion to be even higher in FY 83. In fact, we have been very pleased with the caliber of applicants competing for these positions and feel our rigorous assessment and testing process contributed to that.

There are other areas in which we have expanded and intensified our efforts to counsel small business exporters. For instance:

- o USFCS is working in all 50 states with multipliers such as the District Export Councils comprised of over 1700 members, state economic and business development agencies, chambers of commerce, and universities, to encourage the development of specific export goals on a state-by-state basis. As a case in point, USFCS is starting a special Federal/State liaison pilot project to place some 20 individuals with solid international trade experience in selected states. They will work in concert with the District Offices to intensify efforts to develop and implement a specific export marketing strategy on the state level. This effort is intended to reduce duplication of Federal effort and make states more effective at producing a program tailored to the peculiarities of each state, (such as dominance of a specific industry or abundance of natural resource). Work with the states always has been part of the District Offices' mandate, but we feel that this extra effort will go far to help small firms realize their export potential.

- o To encourage and instruct small- and medium-size business owners, USFCS has held 1,549 "basic export marketing" seminars in non-metropolitan areas of the country (cities of fewer than 50,000 population). These seminars were conducted from October 1981 through June 1982 and were attended by almost 50,000 participants. In major metropolitan areas, 2,800 conferences or seminars or workshops have been held for more than 141,000 persons. ITA's export seminar program emphasizes topical and current themes important to the small business community. USFCS plans to hold 45 seminars on the Export Trading Company legislation, with projected attendance of 6,000 people. Similarly, the District Offices have recently placed emphasis on informing firms of all sizes of new opportunities resulting from relaxation of duties and certain non-tariff trade barriers obtained through the Multilateral Trade Negotiations.

- o To assist small- and medium-size businesses sell their products and services to the Federal Government, 20 Congressionally-sponsored "Federal Procurement Conferences" have been held this year. They attracted some 7,500 persons associated with small business. Of these, 2,870 participated in concurrent export seminars. To reach a still greater number of United States companies and to inform them of opportunities in selling to the Federal Government, 30 Business Development Conferences are being planned in FY 1983 for expected audiences of five-to-six thousand persons.

- o A new initiative will involve retired persons in our promotion and counseling activities. In FY 1983, ITA will begin a program of soliciting voluntary assistance from retired executives with international business experience. These valuable people will expand our professional resources by enabling ITA District Offices to counsel more small firms and deliver ITA programs more effectively.

By the end of 1983, we hope to have retired executives associated with all our District Offices and some FCS posts abroad. As with retired persons serving with the Service Corps of Retired Executives (SCORE), the International Executive Service Corps (IESC), and similar organizations, those assisting our efforts will serve without compensation, but will be entitled to reimbursement for expenses incurred in service.

In reference to "multiplier" organizations, I mentioned our District Export Councils (DEC's). They deserve special note here in this context of assistance to small business. I say this because most of the 1,700 District Export Council members are persons who own or in one way or another are involved with small businesses. Many DEC members have become role-model exporters and as such are instrumental in encouraging and guiding other small export-capable companies in their communities. The DEC's are a fine example of what private sector involvement with the Federal trade promotion effort can mean, not to mention involvement of the states and academia

through the same mechanism. During these first two years of the new Foreign Commercial Service, DEC members have been most helpful in suggesting high quality candidates for the FCS from the private sector.

Export Financing

Your report shows that financing is one of the key concerns among small businesses and their efforts to export. Our own survey taken of the District Export Councils confirm your findings that lack of competitive export financing is a major disincentive to increased exports. More must be done to assist the financing of small business exports.

The Cabinet Council on Commerce and Trade has recognized the perception in the business community that there is an inadequate supply of export financing, and that much of what is available is not competitive in the export marketplace. As a result, the Cabinet Council has directed an interagency working group to prepare a report to focus on public and private sector export finance proposals on such issues as private sector export financing cooperatives and state government export finance facilities, that could complement existing United States official export financing programs. The interagency working group, which includes Commerce, will be offering recommendations to the CCCT by mid-November for improving United States export financing capabilities. Some of the export financing proposals we are currently investigating include ways to improve the

supply of credit for small and medium-sized exporters, improving the marketability of export paper, implementing state programs for export financing, and export financing cooperatives.

Smaller exporters have special problems in securing adequate access to credit. They usually are dependent on commercial bank credit lines, against which their personal and business assets are pledged. They rarely can raise funds from such sources as commercial paper or captive finance companies. Financial techniques such as acceptances, discounting of drafts, and FCIA credit insurance, while helpful, do not expand access to financing because they create a contingent liability against the smaller exporter's existing credit line. In particular, smaller exporters need to bridge the interval between outlays for labor and materials, and receipt of final payment for their sales. In international trade, these repayment terms can typically stretch out to 180 days--which is substantially longer than the 30 days customary in domestic trade. Thus, as part of our report to the CCCT, we will be recommending ways in which smaller exporters can secure access to credit for export purposes.

There may also be ways to improve existing financial instruments or create new ones. Notwithstanding the credit instruments already in use, more can be done to enable companies to place their export paper on the private market. International equipment trusts may be an attractive means of financing nonstationary export items.

States such as California, Utah, Wisconsin, and New York, are focusing on ways in which their states might create export financing facilities to increase the availability of competitive export financing. States have the potential of substantially alleviating the problem of foreign subsidized export finance by offering new resources for direct loans, interest rate equalizing programs, state-based guarantee facilities, or other mechanisms to diversify United States export financing capabilities.

State participation in export finance is at a very early state of development and no state has yet implemented an export financing program. Mr. Alan Parter, Deputy Commissioner of the Department of Commerce of the State of New York, is testifying before you on their proposal for New York announced just yesterday. We are actively studying the New York proposal and other responsible state initiatives as part of our work for the CCCT report.

Export financing cooperatives (EFCs) are another area that we are exploring. Lehman Brother Kuhn Loeb, a large investment bank, has developed a proposal for instituting the first export financing cooperative to complement existing United States official export financing programs. Export financing cooperatives have the potential of tapping new capital resources and offering more competitive rates for medium and long-term financing for EFC members.

The Export Trading Company legislation will allow banks to own equity in export trading companies. In many cases, we expect such entities to be designed to offer a "one stop" export service for inexperienced small and middle-sized businesses. We, therefore, anticipate that many of these financial transaction difficulties experienced by small exporters will be solved for two reasons:

(1) export trading companies formed for the express purpose of taking over transactional problems for the small exporter will be available throughout the country, and (2) the banking community as a whole will be more aware and take new resolve in facilitating exports.

Export Regulations

When we first came to the Department of Commerce, we inherited a substantial backlog of nearly 2,200 export license applications. As of October 30, 1981, that backlog was reduced to less than 200 cases, and now there is virtually no backlog at all. The reason for the backlog was due to lack of clear policy guidance. The reduction in the backlog was achieved through the concerted efforts of all agencies involved in the licensing process. Every effort is being made to ensure that all applications are processed within the deadlines established by the Export

Administration Act of 1979. Generally routine, free world applications are processed in 10 to 20 working days. This represents 85% of the caseload. Less than 10% of overall export trade involve controlled commodities that require a validated export license from the Department of Commerce.

Small Business Export Development Assistance Program

Mr. Chairman, I know you are interested in the status of the Small Business Export Development Assistance Program established under the Small Business Export Expansion Act of 1980. Funds totaling \$2.0 million were made available in FY 1982 for grants of up to \$150,000 each.

These grants were intended to defray the costs incurred by the applicants in establishing local programs to provide export assistance and services to small businesses interested in pursuing export sales.

The Department of Commerce received 287 applications prior to the May 31, 1982, deadline. We reviewed and ranked all 287 applications. Recommendations have been forwarded to our central grants processing unit.

The average request for assistance from the most responsive applicants was \$125,000. In our efforts to hold our administrative costs to a minimum, we were able to use existing staff to administer the program. As a result we can award approximately 1.95 million dollars in awards. As required by the implementing legislation, at least one grant will be awarded in each of the 10 designated regions. Final announcements will be made by the end of September.

Applications were initially evaluated by a panel of international trade specialists assembled in each District Office. Following this review, a Washington Evaluation Panel consisting of 10 International Trade Specialists further evaluated the top-ranked applications from each of the 47 District Offices.

Monitoring and reporting of the grants process will be carried out by District Offices with assistance from USCS Liaison Staff.

Conclusion

Thank you for inviting me to testify this morning. Let me state again the Administration's commitment to assist small business to enter international markets and realize their export potential. I will be pleased to answer your questions.



STATEMENT OF
PETER TERPELUK, JR.,
ACTING DEPUTY ADMINISTRATOR
SMALL BUSINESS ADMINISTRATION
BEFORE THE
SUBCOMMITTEE ON EXPORT PROMOTION AND MARKET DEVELOPMENT
COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

AUGUST 19, 1982

DEAR MR. CHAIRMAN AND MEMBERS OF THIS SUBCOMMITTEE:

I am pleased to appear before you today to discuss the Small Business Administration's International Trade Program and particularly the steps that the Agency has taken and plans to take in regard to implementing the "Small Business Export Expansion Act" provisions of Public Law 96-481.

I will briefly provide an overview of SBA's philosophy and approach to international trade, identify what steps the Agency has taken to implement the export provisions of Public Law 96-481 and outline additional measures which we will take in the coming months to ensure that the intentions of the legislation and the desires of the President in this area are carried out efficiently and effectively.

I would first like to commend you, Mr. Chairman, for the interest that you and the members of this Committee have shown in encouraging more small businesses to enter the field of exporting.

PHILOSOPHY AND APPROACH

Export markets offer great potential for the small business community in terms of additional profits, increased employment, and as a means to offset domestic marketing difficulties. Although three out of four firms that export have less than 100 employees, a significant number of small business manufacturers do not recognize that they have export potential. By Department of Commerce estimates, there are approximately 20,000 additional small firms that could export successfully if they had access to the necessary market information and assistance.

The Survey of Findings on Obstacles to Exporting Faced by Small Businesses which was released by the Senate Committee on Small Business today, based upon this Subcommittee's research, points out many of the real or perceived barriers to greater small business involvement in exporting. They closely parallel the findings of a similar survey which the National Federation of Independent Business did for SBA several years ago. Your study determined that the major obstacle was lack of information. In addition, the expenses occurred in exporting as well as other aspects of financing exports were also major inhibiting factors as expressed by over 53 percent of the respondents to the Subcommittee survey.

Helping small businesses address these very problems is the major focus of the Agency's International Trade Program.

While the Department of Commerce is the Federal Agency charged with implementing the international trade objectives of the nation, we feel our basic role is to help the Department of Commerce and others multiply their services to the small business community. By putting small businesses in touch with private sector international trade service providers, we have no doubt that the export base of the United States can be significantly broadened and a positive effect felt on the nation's balance of trade and balance of payments positions.

This, we believe, is the major thrust behind the export provisions of Public Law 96-481 and of President Reagan's directive to us and the Department of Commerce "... to emphasize programs that encourage export promotion among small business...". It is precisely for this reason that Administrator Sanders has included the Office of International Trade within the operating responsibilities of the Associate Deputy Administrator for Special Programs. This was done to increase the emphasis and heighten the visibility of our International Trade Program within the Agency and the export community.

Our Regional Administrators and District Directors have been directed to include specific international trade objectives in their Action Plans for FY 1983. As Regional Administrator for Region III, I have instructed my District Directors in Pennsylvania, Maryland and Virginia where there are the largest concentrations of potential small manufacturer exporters to pay particular attention to this area.

I myself have had meetings with various federal and state officials and representatives of international trade organizations in Pennsylvania, Delaware and New Jersey to see what can be done to revitalize the Port of Philadelphia so it can better serve the small business export community in the area.

Other Regional Administrators, District Directors and SBA field personnel have met with bankers, federal and state officials, local world trade councils and others to see how we can help them develop an integrated local program of export assistance which meets local needs and maximizes local private sector involvement.

In your home state of Minnesota, Mr. Chairman, I might add that our Acting District Director, Mel Aanerud, has made

significant strides to bring SBA into the state's international trade network. Firms within our loan portfolio and Procurement Automated Source System are being invited to various export training programs in order to learn more about the techniques and procedures of international trade. Four such programs are planned for the next four months in Minnesota. SBA is a member of a state international trade organization and took an active role in World Trade Week activities last May.

I would like now to comment on specific actions that the Agency has taken and will take in the coming months regarding the "Small Business Export Expansion Act" provisions of Public Law 96-481.

EXPORT FINANCING

As your survey suggests, there is a great need for small business exporters to acquire the pre-export financing they need in order to obtain the raw materials, inventory and labor necessary to process an export order they receive from an interested overseas buyer.

On December 3, 1981, the Agency published for public comment in the Federal Register proposed rules and regulations which would establish a new guarantee Export Revolving Line of Credit (ERLC) loan program for small business exporters as outlined in Section 112 of the law. After receiving and evaluating the suggestions from small businesses, bankers and international trade organizations, we published the final rules for the program in the June 3, 1982 Federal Register. I might add that there was considerable support for the program.

The primary purpose of the ERLC program is as the legislation states - "... to enable small business concerns to develop foreign markets and for pre-export financing...".

Under the program, a qualified small business that has been in business for one year (though not necessarily in export) can obtain from the SBA through his or her bank, if the bank determines it to be necessary, a guarantee by the SBA of up to \$500,000 (or 90 percent of the amount) for a revolving line of credit to help finance the firm's export working capital needs. The line of credit can be up to 18 months in term. Once the line is paid off at the end of the note, the small business can reapply through his or her bank for another revolving line of credit.

Because of the revolving feature of the line of credit, much paperwork is reduced since the business and the bank need not receive authorization to make disbursements each time an advance is made under the agreed terms of the ERLC.

In June we issued the necessary guidance to our field staff and we began a series of meetings with bankers, world trade clubs and Federal and state officials to explain our program. We are encouraged by the initial interest in the program and feel that there is significant receptivity by the private banking community, the key to the program's eventual success.

On July 28, 1982, a feature cover article in the Commerce Department's biweekly magazine Business America which reaches thousands of small business subscribers outlined our new program. A news release issued by SBA announcing the program was carried in many newspapers and magazines, including among others Nations Business and the Kiplinger Newsletter and has brought many inquiries to our field offices about the program.

This past week the Administrator wrote a personal letter to the major banks which participate in our regular loan

programs as well as to banks which the Export-Import Bank suggested further advising them individually of the ERLC program. As a result of our Minneapolis office's briefings of major banks in your home state, Mr. Chairman, I understand some applications are about to be submitted to us for guaranteed revolving lines of credit.

CENTRAL OFFICE AND FIELD DELIVERY

As I previously pointed out, the Office of International Trade has been placed under the direction of the Associate Deputy Administrator for Special Programs in order to increase its visibility and assure that the program receives the emphasis it should within our entire organization. In the coming weeks, now that our overall organization is structured to best serve our small business constituency, we will complete our staffing of that Office. In addition the program, I can assure you, Mr. Chairman, will receive adequate budgetary resources to carry out its functions efficiently and effectively.

The Administrator has instructed each Regional Administrator to hire, from the outside if necessary, a fully qualified Regional Export Development Specialist as mandated in the

law. We will have the ten field specialists desired on board by October 1, 1982. Currently we have six specialists and we are in the process of recruiting the other four. Despite our decreasing personnel ceilings, Administrator Sanders feels that this is an area which needs such support. These persons will be on the Regional Administrator's personal staff. They will be charged with accomplishing the specific objectives of the law.

On August 3, 1982 the Administrator approved the issuance of a specific International Trade Program Standard Operating Procedure Manual which clearly outlines what he desires. He has also instructed each Agency program head to revise their operating manuals to reflect the provisions of SOP 90-65 as they relate to their individual areas.

SBA STAFF EXPORT TRAINING

During the period of August through November 1980, 129 Management Assistance Officers and loan specialists (who have been specifically designated international trade responsibilities in the District and Regional Offices), SCORE volunteers with export expertise, and other Agency personnel, attended a series of five one-week export training programs. At these programs, representatives of

various Federal agencies, international trade organizations, bankers, freight forwarders and others explained the services that they can provide to small exporters.

Such training is vitally important if our staff people in the field are to understand exporting and advise small business of what local private sector programs of assistance and export services are available to help them. A set of six twenty minute audio-visual cassettes were produced to highlight the major export procedures and processes covered during these meetings. Copies of the program, which actually revolves around a small exporter (who appeared on the tapes), together with an accompanying workbook, have been distributed to all our Regional and District Offices for use in continued Agency personnel as well as small business training programs. Several Commerce offices and other organizations have borrowed these tapes for their own uses as they find them of significant value.

In January 1981 our Regional Export Development Specialists attended another one week orientation program in Washington at which other federal departments and agencies explained their programs. I might add, Mr. Chairman, that staff members from this Committee also briefed our people. During

the first quarter of FY 1983 we intend to have another such meeting in Washington to further outline our program. I hope that members of your staff can participate again.

SCORE/ACE INVOLVEMENT

SCORE, the Service Corps of Retired Executives, and ACE, Active Corps of Executives is, as you know, a volunteer group which we call upon to assist small business. Within this organization are several hundred individuals experienced in international trade who counsel small businesses in this field. For the past several years, there has been a National SCORE/ACE Foreign International Trade Coordinator who is assigned to the National SCORE/ACE Office and works closely with the Office of International Trade to increase the capacity of SCORE/ACE to assist potential and current small exporters. They have developed an "Export Guide" for their counselors' use and during the coming year will develop and distribute a directory of their volunteers with export-import expertise so that the volunteers can contact each other to seek specific answers to export problems their clients have.

In addition, they will undertake a recruitment program to obtain more internationally experienced counselors and will

conduct several pilot counseling projects aimed at helping selected manufacturer loan holders, 8(a) firms, and PASS registrants to develop and implement an export plan for their firms.

One current example of continuing SCORE export activity is the initial screening of several hundred small firms in the Chicago area - at the request of the Commerce Department - to ascertain their export interest and capabilities. These firms are then referred to Commerce or to appropriate local organizations for more indepth assistance.

In Maine, SCORE developed a list of private sector translators who can assist small exporters. Previously there had been no such list.

In South Dakota, a SCORE volunteer worked many months to help a small manufacturer put together a \$120 million export and investment joint venture in the Caribbean.

In Idaho, our Regional SCORE/ACE International Trade Coordinator is the Chairman of the Governor's Export Council.

SBDC ACTIVITY

As you are aware, Mr. Chairman and Members of this Subcommittee, the Small Business Development Center Program is a major Management Assistance program of the Agency. We are currently funding International Trade Centers within these consortia to provide more indepth export assistance through the university and local private sectors. Programs are underway in Alabama, Georgia, and Wisconsin. We anticipate they will be expanded during FY 1983 and indications are that more such SBDC International Trade Centers will probably be established as requests are being received from more SBDC's to provide this assistance. We intend to contract with the University of Georgia to provide export market information by product area on various countries which will not only indicate current United States exports but also import data from other countries and projected demand.

EXPORT RESOURCE DATA BASE

As a part of their Regional Action Plans for FY 1983, our field offices are developing local Export Resource Data Bases of organizations and programs which can provide export services to small businesses. Several thousand such sources

have been sent in to the Office of International Trade where they are being consolidated. This information based upon 40 key export service areas, will be converted to a word processing based program which will enable the field to identify not only local but regional and national sources of export help to small business by a simple access system. (See Attachment A). The system will be updated every six months. We will also be able to track what help small businesses received from the organizations and firms listed in the Export Resource Data Base.

OUTREACH

In line with the Administrator's priority of rendering every possible Agency program of assistance to all its clients regardless of source of entry, District Offices are going to identify which clients in all our programs should be aggressively contacted and encouraged to consider exporting when appropriate. Initial industries will be selected from the Commerce Department's Targeted Industry Program.

SMALL BUSINESS EXPORT TRAINING

During early FY 1983, we intend to undertake an active outreach program to get the message to small businesses that

they can be successful in exporting and private and public sector help is available to them. A mixed media approach will be utilized in a number of cities which have a high concentration of small manufacturers to encourage them to contact SBA to receive a brochure entitled "Is Exporting for You?" It outlines what areas a small business should investigate if it is to undertake profitable export operations. After returning a self analysis questionnaire of their export needs, we will access the export resource data base and refer such businesses to local sources of more indepth export assistance.

In addition, the Office of International Trade through continued involvement with the United States Chamber of Commerce, our National Advisory Council Committee on International Trade, and others will seek input from small businesses on various international trade issues of concern to them.

As your report points out, more information on the "how to's" of export is needed by small business. We will continue our program of cosponsored small business group training in export techniques and procedures. We are, in addition, working with the Control Data Corporation (CDC) to

develop a computer-assisted learning module on exporting which individual small business owner-managers can utilize through CDC learning centers at no cost to them.

INTERGOVERNMENTAL COOPERATION

We are working very closely with our sister government agencies and departments.

On July 1, Administrator Sanders signed three Interagency Agreements. One is with the International Trade Administration which outlines ways in which our respective field staffs can cooperate more closely to serve the current or prospective small business export community without unnecessary duplication of effort.

The other two involve the National Marine Fisheries Service of NOAA and the Foreign Agricultural Service. Under these agreements, the SBA will pay the costs of the participation fees by small businesses in overseas trade promotion events of these Departments. While we will not pay the per diem or travel expenses attendant with such events, we feel that this will encourage more small businesses to become involved in overseas trade. A copy of the Agreements is attached.

EXPORT TRADING COMPANIES

In closing, I would like to express the Administrator's strong belief that export trading companies can be a major vehicle by which small businesses can enter the export market. According to FY 1983 FED figures there were 3,702 bank holding companies with assets of almost \$1.3 trillion in the U.S. They have 28,044 branch offices around the country. At the Commerce Department's request, and if ETC legislation about to go to conference becomes law, we will work with them to implement the legislation. This will include cosponsoring with them a series of Export Trading Company seminars to explain the Export Trading Company concept to the public.

Let me assure you, Mr. Chairman and members of this Subcommittee, that we take the mandate of Public Law 96-481 very seriously. We will give our International Trade Program the visibility and emphasis that this Subcommittee and the President have requested.

We will do it in partnership with the other Federal Agencies and primarily through the private sector because more small business exports means more small business jobs, a stronger small business community and a stronger America. The small business marketplace is not just the United States, it is the world.

Mr. Chairman, this concludes my prepared statement. I shall be happy to answer any questions this Subcommittee may have.

SBA EXPORT DATA BASE/
EXPORT INFORMATION CODESA. MARKET RESEARCH

1. Identify Foreign Markets (Products)
2. Identify Overseas Customers (Leads)
3. Export Management Company/Export Trading Company

B. LENDING

4. Banks with International Departments
5. SBA Lenders
6. SBICs/MESBICs

C. TRAINING PROGRAMS

7.

D. GOVERNMENTFederal

8. U.S. Department of Commerce
9. U.S. Department of State
10. Agency for International Development
11. Overseas Private Investment Corporation
12. Export-Import Bank
13. U.S. Department of Agriculture
14. U.S. Trade Representative
15. U.S. Department of Treasury
16. Other

State

17. Department of Commerce
18. Overseas Offices

Local

19.

E. OTHER

20. Port Authorities/Foreign Trade Zones
21. Small Business/Trade Associations
22. World Trade Clubs/U.S. Chambers of Commerce
23. Foreign Embassies in the U.S./Chambers of Commerce Overseas
24. Shipping/Documentation/Marine Insurance/Packaging
25. Overseas Investment/Licensing Agreements
26. Foreign Credit Insurance Association
27. Credit Information on Overseas Buyers
28. Tax Incentives/Attorneys
29. Importing
30. International Financial Institutions
31. Translation Services
32. Advertising/Promotion
33. Overseas Project Planning/Foreign Government Procurement
34. Foreign Regulations
35. Directories/Publications
36. Financial Consultants/Foreign Exchange

AGREEMENT BETWEEN
UNITED STATES DEPARTMENT OF AGRICULTURE
AND
THE SMALL BUSINESS ADMINISTRATION

GENERAL:

The Foreign Agricultural Service, United States Department of Agriculture and the Small Business Administration (SBA) agree to cooperate in the establishment and implementation of programs to assist small and minority United States export firms engaged in business to export United States agricultural products, including brokers, producers, dealers, distributors and jobbers. Firms eligible to receive assistance under this Agreement are as defined by applicable SBA size standards (13 CFR part 121).

INTENT:

The intent of this Agreement is to enable FAS/USDA to respond to its commitment of including in its market development program small and minority business enterprise export firms. FAS/USDA's obligation is to improve utilization of United States agricultural resources through creation of export markets for these firms. This Agreement will help broaden the base of exports, by providing new entrants to the export markets and by offering these firms opportunities to generate export sales. This Agreement also serves the interest of SBA by promoting access of small business in the United States to foreign markets for agricultural products.

LIAISON:

FAS/USDA will work with the office of the Administrator of SBA in implementation of this program. The FAS/USDA liaison will be the Assistant Administrator, Foreign Market Development, FAS/USDA or his designee. The SBA liaison will be the Special Assistant to the Administrator for International Trade or his designee.

THE FAS EXPORT PROMOTION PROGRAM:

FAS sponsors, recruits exhibitors, manages and conducts overseas exhibits at international trade fairs and also participates in a number of smaller regional exhibits overseas as well as in special activities at Agricultural Trade Offices. FAS also participates in the United States with the following regional state organizations: Southern United States Trade Association (SUSTA), Eastern United States Agricultural and Food Export Council, Inc. (EUSAPEC), Mid-America International Agri-Trade Council (MIATCO) and Western U.S. Agricultural Trade Association (WUSATA). All of these activities are designed to expand the export of United States agricultural and food products. FAS/USDA will keep SBA inform of its export programs through routine mailings and by direct contact.

5. EXHIBIT SPACE:

FAS/USDA agrees to reserve space at each activity for small and minority export business firms, in any and all of its overseas promotional programs and those conducted by state regional organizations in the United States designed to promote the export of United States agricultural products. The amount of space necessary at each activity is to be determined by FAS/USDA and SBA.

6. THE SELECTION OF SMALL AND MINORITY AGRICULTURAL FOOD PRODUCT INDUSTRY PARTICIPANTS:

The selection of small and minority food product industry participants will be the sole responsibility of the Export Promotion Division of FAS/USDA. The SBA agrees to assist in the selection of and facilitate the participation of a mutually agreed number of small and minority export business firms in the FAS/USDA export promotion program. SBA may offer suggestions or assistance by submitting a list of participants for FAS/USDA's consideration. The ultimate knowledge of small and minority participant's background and qualifications can best be judged by FAS/USDA due to its unique role in its relationships to the state departments of agriculture and regional trade associations of the agricultural industry of the United States and the trade offices around the world. SBA reserves the right to veto any selected participants.

7. FUNDING:

SBA will utilize official form 1081 to provide FAS with funds to cover the participation and shipping fees (not to exceed \$1,000) for each participant selected by FAS and SBA in each activity. Additional costs (for travel, per diem, and miscellaneous items) will be the sole responsibility of each participant.

8. REFUNDS:

Should any event covered by this Agreement for which SBA has made payment(s) to FAS on behalf of a participant(s) be cancelled, such funds will be applied to future events undertaken by FAS and SBA.

9. CONDITIONS OF PARTICIPATION:

The individual business firm sponsored by SBA will be fully responsible for abiding by all FAS rules and regulations governing participation in any overseas trade show or domestic trade activity. SBA and FAS will not be liable for failure by any selected business firm to abide by these rules.

10. UNSCHEDULED OR OTHER EXPORT ACTIVITIES:

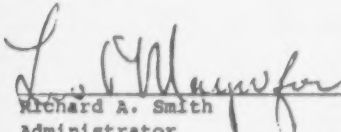
FAS/USDA will work with SBA to develop additional export promotional events including specialized sales teams and other activities to promote the export of United States agricultural products. Such specialized events will be individually reviewed and approved by the Director, Export Promotion Division, FAS/USDA and appropriate officials from SBA.

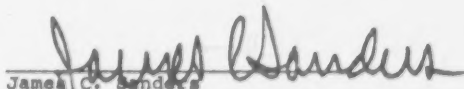
11. DURATION:

This Agreement will be in effect until September 30, 1984, and may be renegotiated or extended beyond that date. Any extension of this Agreement beyond September 30, 1982, shall be evidenced by a document signed by appropriate officials of FAS/USDA and SBA.

Signed:

Signed:


 Richard A. Smith
 Administrator
 Foreign Agricultural Service
 United States Department of
 Agriculture


 James C. Sanders
 Administrator
 United States Small Business
 Administration

Date: 4-1-82Date: 7/1/82

MEMORANDUM OF UNDERSTANDING
Between The
International Trade Administration
And The
Small Business Administration
On Cooperation In Support Of
International Trade Development

- A. The statutory obligations of the Department of Commerce are to foster, promote and develop the foreign and domestic commerce of the United States. The Small Business Administration is required by the Small Business Act of 1953 to aid, counsel, assist and protect the interests of small business concerns.
- B. Functional responsibility to promote the international trade of the United States and to assist U. S. business in its export operations domestically and abroad is vested in the International Trade Administration (ITA) of the Department of Commerce. The principal objective of ITA is to increase and promote U.S. exports, thus contributing to the Nation's economic growth and helping to achieve our national export expansion goals. ITA advances this purpose by working with other Government agencies and international organizations to create a climate in which international trade and investment can flourish, and by working to make U.S. industry more export conscious.
- C. By legislation, the Small Business Administration (SBA) is required to apply portions of its resources to promote export opportunities for small business goods and services. In cooperation with ITA, SBA makes available to small businesses complete export information and encourages small business participation in trade fairs, shows and missions. To this end, SBA counsels small businesses on international marketing to acquaint them with problems and opportunities implicit in foreign trade and to prepare them to benefit from more specific programs and intensive assistance available from ITA's District Offices and private sector service organizations in the international field.
- D. Over the years and particularly under the Commerce/SBA Agreement of December 1976, a number of cooperative activities were developed in Washington between SBA's Office of International Trade and ITA's Washington Office, particularly the U.S. Commercial Service (USCS), and in the field between SBA's Field Offices and the District Offices of the USCS.

- E. The purpose of this Agreement is to provide for an increase in such cooperation between the two agencies to improve the delivery of U.S. Government small business exporter programs while avoiding duplication of effort. The initiatives shown below outline means for efficient cooperation between ITA and SBA, as well as the responsibilities of each organization under this Agreement.
- F. For ITA, the Deputy Assistant Secretary for the Commercial Services shall have this coordination responsibility. For SBA, the Office of International Trade through the Special Assistant to the Administrator shall have the coordination responsibilities for all activities performed jointly with ITA.

I. ITA Initiatives

The International Trade Administration will:

- 1. Provide periodically, from ITA District Offices to corresponding SBA Offices in the field, advance schedules of Commerce export promotion events suitable for participation by small and medium-sized businesses.
- 2. Provide information and promotional literature on pertinent programs and activities of ITA.
- 3. Provide qualified personnel from Washington or the District Offices to participate in SBA co-sponsored conferences, seminars, and other export development activities; advise SBA about suitable ITA-sponsored seminars and conferences featuring information on exporting; and encourage the attendance of small businesses at such events.
- 4. Participate in training of SBA Loan Officers to assist them in evaluating the viability of export development activities for which SBA loans are requested, and provide personal consultation assistance upon request.
- 5. Provide coverage of SBA responsibilities and services in ITA's business counseling sessions and literature.
- 6. Refer small business contacts to appropriate SBA Field Offices for participation in SBA programs.
- 7. Through ITA's "multiplier program," make local banks aware of SBA programs.

8. Provide ITA films and other audiovisual materials for use by SBA Field Offices.
9. Periodically brief SBA personnel in Washington and in the field on ITA programs and activities.
10. Notify SBA Field Offices of Foreign Buyers and Foreign Commercial Service Officer visits.
11. Notify SBA of any joint venture or licensing opportunities suitable for small business coming to the attention of ITA.
12. Consistent with applicable legal requirements as to the confidential treatment of information, provide to SBA selected international trade-related statistical data compiled by the Department or data to which ITA otherwise has access.

17. SBA Initiatives

The U.S. Small Business Administration will:

1. Provide ITA District Offices with the names of companies granted SBA assistance for export development.
2. Provide periodically, from SBA Field Offices to corresponding ITA District Offices, advance schedules of SBA events appropriate for ITA participation.
3. Provide qualified personnel to participate in ITA seminars, conferences, and other appropriate export development activities; advise ITA about suitable SBA-sponsored seminars and conferences featuring information on exporting; and encourage the attendance of small businesses at such events.
4. Provide to appropriate ITA personnel explanatory information and promotional literature on SBA programs and activities pertinent to export development.
5. Provide training and guidance materials to pertinent ITA personnel sufficient to allow them to make preliminary evaluations of the potential suitability of clients for SBA assistance.
6. Provide coverage of ITA programs and services in appropriate loan counseling sessions and SBA co-sponsored training programs and literature.

7. Provide SBA films and audiovisual materials for use by ITA and its District Offices.
8. Periodically brief ITA personnel on SBA programs and international trade initiatives.
9. Provide selected SBA personnel periodic training on ITA programs.
10. Assist in identifying export-capable firms and recommend appropriate small firms to be included in targeted industry sector programs.
11. Assist in identification of small business exporters or potential exporters for participation in appropriate ITA Foreign Buyer events and overseas trade promotion fairs, exhibitions, missions, and catalog events.
12. Consistent with applicable legal requirements as to the confidential treatment of information, provide to ITA small business statistical data compiled by SBA or data to which SBA otherwise has access.

III. Joint ITA/SBA Initiatives

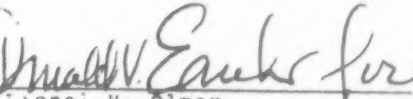
The International Trade Administration and the Small Business Administration will jointly:

1. Plan and implement export development activities for the small business community at the local level.
2. Plan visits by USCS District Office and SBA Field Office personnel, together, to local banks to inform them of their important role in government programs to promote export development.
3. Appoint a specific official in each organization, at headquarters and in each Field or District Office, to provide the coordination, monitoring, and communication link for all projects and activities pertinent to this Memorandum of Understanding.
4. Develop, where appropriate and within resource constraints, audiovisual materials, training aids, informational publications and promotional materials.

5. Provide appropriate interchange of information and direct access to information between ITA's automated data system and SBA's Procurement Automated Source System (PASS), as well as between appropriate future SBA -- ITA data collection and retrieval collection systems.

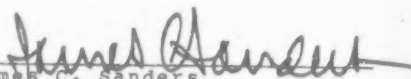
Signed:

Signed:


Lionel H. Olmer
Under Secretary for
International Trade
U.S. Department of Commerce

Date:

7/1/82


James C. Sanders
Administrator
U. S. Small Business
Administration

Date:

7/1/82

MEMORANDUM OF UNDERSTANDINGThe Small Business AdministrationandThe National Oceanic and Atmospheric Administration1. GENERAL:

The National Oceanic and Atmospheric Administration (NOAA) and the Small Business Administration (SBA) agree to cooperate in the establishment and implementation of programs to assist small or disadvantaged United States fishery firms to export United States fish and shellfish products. Firms eligible to receive assistance under this Memorandum of Understanding are as defined by applicable SBA size standards (13 CFR Part 121).

2. INTENT:

The intent of this agreement is to enable NOAA to respond to its Congressionally mandated obligation to increase the utilization of United States fishery resources through creation of export markets. The program will also help broaden the base of exporters, by providing new entrants to the export market and by offering these firms opportunities to generate export sales. Increased exports also enable the United States to reduce the \$2 billion trade deficit in fishery products. This agreement also serves the interest of the SBA, by promoting the access of small businesses in the United States to foreign markets for fish and shellfish.

3. LIAISON:

The National Marine Fisheries Service (NMFS) of NOAA will work with the Office of the Administrator (OA) of the SBA in the implementation of this program. The NMFS liaison will be the Assistant Administrator for Fisheries or his designee. The SBA liaison will be the Special Assistant to the Administrator for International Trade or his designee.

4. THE NOAA EXPORT PROMOTION PROGRAM:

NOAA sponsors, recruits, manages, and leads several U.S. Seafood Sales Missions overseas and sponsors and manages a U.S. Seafood Sales Exhibit at either the ANUGA World Food Market in Cologne, West Germany or at the SIAL World Food Fair in Paris, France. The ANUGA and SIAL Food Shows are held in alternate years. NOAA also participates in a number of smaller, regional food shows overseas. NOAA also organizes and/or sponsors export seminars in the United States.

5. NOAA/SBA COOPERATION:

NOAA agrees to reserve space, the number to be agreed on by NOAA and SBA, for small or disadvantaged business firms, in any or all of its overseas or domestic programs designed to promote the export of United States seafood products. The SBA, in turn, agrees to select and facilitate the participation of an agreed number of small or disadvantaged business firms in NOAA's export programs.

6. SELECTION OF INDUSTRY PARTICIPANTS:

The selection of SBA's fishing industry participants will be the sole responsibility of the SBA. NOAA may offer suggestions or assistance to the SBA, but the ultimate decision regarding actual participation will belong to SBA.

7. FUNDING:

SBA will provide NMFS with funds in advance to cover the Participation Fee for each SBA participant in each show or mission. In most instances this fee ranges from \$500 to \$1,000 for small, regional food shows and for most sales missions, and from \$2,000 to \$3,000 for the ANUGA or SIAL World Food Shows. NMFS will provide SBA with exact costs as soon as these costs can be determined.

SBA may elect to (1) make direct payments to NOAA for each event, or (2) require the selected firm to make a direct payment. Any additional payments (for travel and per diem, etc.) will be between SBA and the selected firm.

8. REFUNDS:

NMFS cannot return the Participation Fee after the deadline for refunds has passed, or if a "no refund" policy is in effect for a given event. If a program is cancelled by NMFS a full refund will be given to SBA.

9. CONDITIONS OF PARTICIPATION:

The individual business firm sponsored by SBA will be fully responsible for abiding by all NMFS rules and regulations governing participation in any overseas trade show or sales mission or domestic export seminar or show. SBA and NOAA will not be liable for failure to abide by these rules by any selected business firm.

10. UNSCHEDULED OR OTHER EXPORT ACTIVITIES:

SBA will work with SBA to develop additional export promotion events, including specialized sales missions or events to promote the export of U.S. seafoods. Such specialized events will be individually reviewed and approved by appropriate officials of both agencies.

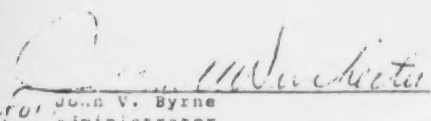
NMFS will keep SBA advised of any unscheduled export efforts, not outlined below (see Appendix). SBA will have the option to participate in any of these unscheduled programs, following notification. NMFS will keep SBA informed of its export events and programs through routine mailings and by direct contact.

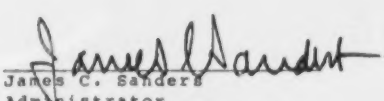
11. DURATION:

This Memorandum of Understanding shall be in effect until September 30, 1984, and may be renegotiated or extended beyond that date. Any extension of the Memorandum of Understanding beyond September 30, 1984 shall be evidenced by a document signed by the appropriate officials of both the National Oceanic and Atmospheric Administration and the Small Business Administration.

Signed:

Signed:


John V. Byrne
Administrator
National Oceanic and Atmospheric
Administration


James C. Sanders
Administrator
U. S. Small Business
Administration

Date:

7/1/82

Date:

7/1/82

APPENDIX

THE NOAA PROPOSED EXPORT PROGRAM FOR FY-82 AND FY-83 ^{1/}

<u>EVENT</u>	<u>AVAILABLE SPACES</u>	<u>ALLOTTED TO SBA</u>
<u>FY-82:</u>		
U.S. Seafood Sales Exhibit, SIAL'82 World Food Show, Paris, France (November 15-20'82)	26	2
<u>FY-83:</u>		
U.S. Seafood Sales Mission to Europe-Tentative (2nd Quarter FY83)	5-15	2
U.S. Seafood Sales Mission to a Developing Market Area-Tentative (4th Quarter FY83)	5-15	2
U.S. Seafood Sales Exhibit, ANUGA'83, Cologne, West Germany (Oct. 1983)	26	$\frac{3}{9}$

^{1/}Contingent upon availability of funds and recruitment of minimum number of industry participants.

Senator HUDDLESTON. Senator Nunn has joined us. Do you have any questions of these witnesses?

Senator NUNN. No, Mr. Chairman, I have no questions at this time. I have been trying to get here all morning but I had about six other meetings.

Senator HUDDLESTON. That is the way of life.

Thank you very much, gentlemen. We appreciate your testimony.

The chairman understands that the final witness listed is not present, so that concludes this hearing at this time.

[Whereupon, at 11:55 a.m., the subcommittee recessed, to reconvene at the call of the Chair.]

TO CONSIDER THE OBSTACLES FACED BY SMALL BUSINESS EXPORTERS

THURSDAY, OCTOBER 21, 1982

U.S. SENATE,
COMMITTEE ON SMALL BUSINESS,
Spokane, Wash.

The committee met, pursuant to notice, at 1:32 p.m., in the Spokane City Council chambers, Spokane City Hall, 808 Spokane Falls Boulevard, Spokane, Wash., Hon. Slade Gorton (acting chairman of the committee) presiding.

Present: Senator Gorton.

Also present: Tim Renouard, assistant to Senator Gorton; Clifford Webster, legislative assistant; and Anne H. Sullivan, professional staff member.

STATEMENT OF HON. SLADE GORTON, A U.S. SENATOR FROM THE STATE OF WASHINGTON, AND ACTING CHAIRMAN, COM- MITTEE ON SMALL BUSINESS

Senator GORTON. The hearing will come to order.

I am Senator Slade Gorton. I am a member of the Senate Small Business Committee. This is a field hearing of that committee.

Exporting means jobs. The Department of Commerce of the United States says that every \$1 billion in exports represents about 31,000 jobs. In 1980, 1 in every 7 industrial jobs in this Nation depended on exporting, and one-third of this Nation's agricultural production was going overseas.

Businesses in Washington State are in excellent positions geographically to pursue and successfully to exploit international markets. The evidence indicates that they are doing so. One-fourth of the manufacturing jobs in Washington State are export related. Across all sectors exporting is responsible for 20 percent of this State's employment.

Despite these statistics, however, we have not yet realized our full potential for exporting. The Commerce Department tells us that there are at least 20,000 small firms in this country that have the potential competitively and profitably to market their products overseas but that they are not doing so.

As one of its priorities, the Small Business Committee is attempting to identify and remove the obstacles which inhibit exporting by small businesses. The committee started this process by surveying nearly 1,300 small firms, both exporters and nonexporters, to ascertain the exporting obstacles which they encountered and to elicit

their suggestions for Government action which will encourage exporting by the small business sector.

The results of this survey which was published in August and the records from hearings such as this one will serve to inform the members of this committee about what Congress should be doing to increase American exports of goods and services.

Developing a strong export sector has been a priority of both the 96th and 97th Congresses. In 1980, at the urging of this committee, Congress enacted the Small Business Export Expansion Act. This legislation authorizes matching grants to small businesses to establish small business export development programs. It established an export revolving line of credit loan guarantee program in the Small Business Administration to provide preexport financial assistance to small businesses. It mandated the placement of export development specialists in each of SBA's regional offices.

Several of the witnesses at today's hearing will report on the progress of implementing this legislation in Washington State.

In addition, since I joined the Senate in January 1981, Congress has removed obstacles to exporting caused by our tax laws relating to foreign-earned income, and the Senate has passed legislation to simplify and clarify the Foreign Corrupt Practices Act.

Most recently, legislation to facilitate and encourage the formation of export trading companies and associations has become law. It is believed that this legislation will lead to exporting by a greater number of small- and medium-sized firms, resulting in the creation of 300,000 to 600,000 new jobs in the United States by 1985.

With all of this as background, I look forward to hearing testimony of today's witnesses on the obstacles which they have encountered in developing export programs in their businesses and to hearing any suggestions for actions by Congress to remove these obstacles.

At this point I will announce to the people who are here that we have three panels of exporters from which we will hear: One representing agriculture; one representing manufacturing; and one representing government. We will take approximately 40 minutes for each of those panels. We have set an adjournment time of approximately 3 o'clock for this meeting.

I do understand that there are some others in the audience who are not on the list of witnesses who, nevertheless, wish to make a contribution. To the extent that I can do so in the half hour or so after 3 o'clock, I will hear informal statements from those in the audience who wish to make them, limited roughly to 3 minutes each.

In addition to that, however, we will accept written testimony on any of the subjects of this hearing. That written testimony will be made a part of the record of the hearing.

With that, I would like to call the members of the agricultural panel: Mr. Buckles, Mr. Anderson, Mr. Skagen, and Mr. Shoults, if he has been able to be here. I am not sure that is the case.

If each of those gentlemen will come up to the table, we can begin.

Perhaps the fairest way to proceed is to hear from you in alphabetical order, which puts Mr. Anderson first.

You may proceed.

**STATEMENT OF RON T. ANDERSON, PRESIDENT, ANDERSON HAY
& GRAIN, ELLENSBURG, WASH.**

Mr. ANDERSON. Thank you, Senator.

I am Ron Anderson, president of Anderson Hay & Grain Co. in Ellensburg. I am also chairman of the National Hay Association Export Committee.

In general, I feel our Government is most helpful to small businesses in developing export markets. The Federal Government cannot create the demands and new markets for a new or an experienced exporter. Industry and Government must work together as a team.

The staff of the USDA Foreign Agricultural Service has been excellent to work with. They have been a great help to me in developing export markets and assisting in solving problems with my exporting.

With respect to the hay industry, 3 years ago the National Hay Association became involved in a cooperative program with the USDA Foreign Agricultural Service. The purpose, in brief, was to develop new and better service to present markets for hay products in foreign countries. We are showing progress in this area.

A newly formed joint marketing plan with the U.S. Feed Grain Council and the National Hay Association will zero in on Japan and Korea this coming year.

Immediate problems to the export of hay products, which is the main product that I have been exporting—the first thing, of course, is a strong U.S. dollar to foreign dollars. This has been a real obstacle that we have had this past year, and I am sure that is with other products also.

Another obstacle is in Korea there is a restriction on alfalfa hay products being imported into Korea. There is a 20-percent import tax, and it is also impossible to obtain import permits.

I was just in Korea 2 weeks ago with an alfalfa trade mission group sponsored by WUSATA and the National Hay Association. The need for imported high quality roughage was expressed by the feed and livestock industry. I feel the Western States could be assured of a beginning market of 100,000 tons of alfalfa hay cubes.

I feel the hay industry, with the help of our Federal Government, can overcome this obstacle. I ask for your help.

Senator GORTON. Thank you very much.

Mr. Buckles?

**STATEMENT OF WILLIAM A. BUCKLES, PRESIDENT, CENTON LTD,
SELAH, WASH.**

Mr. BUCKLES. My name is Bill Buckles. I am the president of Centon Limited in Selah, Wash. I represent a company which is very new. It has been in business approximately 1 year, and we are developing as an export brokerage for agricultural products as well as a management company to assist other producers of agricultural products in exporting their produce.

As a new small business, the obstacles and hurdles related to the complexity of exporting are numerous. They include the obvious, such as the time necessary to locate and to validate the people that you are dealing with, the identification of unique market charac-

teristics so that what you are shipping is consistent with the requirements of the foreign markets, and the time and expense in developing these markets as well as risks related to perishability.

Hurdles have been intensified, I think, for us by the lack of a comprehensive policy toward exporting of the Federal Government. As I say that, I think as a very small business these hurdles come as a result of a reluctance of Federal agencies to deal with new companies resulting from frustrations and difficulties that have been experienced in the past with new companies trying to get into exporting. It is a complex business.

The export resources we found are scattered throughout the Federal bureaucracy. They cannot be easily located. Once they are located, there really is no assurance that assistance will be provided. We have been lucky at times; we have found individuals within many bureaucracies who have been willing, eager, to provide services, but, again, that requires a lot of time, and I think it is a matter of luck.

We found that agencies do not tend to work together well. Each agency does have its own arena, and it tends not to coordinate very well with other agencies to maximize resources that might be available to us.

The best example, I think, of our frustration in developing our export program has been with the FCIA insurance program. Our application for small business coverage intended to be for new small businesses, was turned down for lack of experience. The application was submitted in January of this year.

It was recommended that we apply for a regular FCIA coverage. Our insurance broker did apply in our behalf for regular FCIA coverage, and this application was turned down with the suggestion that there was a small business program designed specifically for companies such as ours to help us in exporting.

We reapplied for the FCIA, small business coverage and we are still waiting. They are seeking additional information.

We have gone through a period from January of 1982 until the present still without a policy. That has created some problems for us. We have developed accounts, and we have validated those accounts as being very, very viable. Yet, the inability to have insurance to assist us in shipping and reducing some of the risk has been a major barrier.

Finally, the lack of a program that we have been able to find—and I have to qualify this because as a new company much of what we say does not exist may very well exist and we just have not found it yet—to provide bonding on bids to the various tenders from other countries, foreign governments, creates a substantial barrier for us. It is almost impossible for a new small business to get bid bond coverage when you are trying to make a bid on some of these requests, these tenders.

I have discovered through a number of contacts that these tenders often are not addressed by larger companies. They go unanswered. In fact, I think that is an opportunity missed.

We feel that our place within the system is to address many of these commodities that can be shipped in smaller quantities. We are not able to compete with very, very large shipments, but we

think the opportunity we have for shipping smaller quantities provides a basis for our success as a new company.

Finally, it is our feeling that to solve these problems a comprehensive export policy needs to be developed.¹ The insurance program, particularly for small businesses, by the Ex-Im-Bank needs to be more accessible and should include bid bond provisions.

With these two changes, we think small business will have greater capability to expand the current level of exported products from the United States.

Thank you.

Senator GORTON. That you, Mr. Buckles.

Mr. Skagen?

**STATEMENT OF RON SKAGEN, ASSISTANT MANAGER, BLUE
CHELAN, INC., CHELAN, WASH.**

Mr. SKAGEN. Thank you, Senator Gorton.

My name is Ron Skagen. I am the assistant manager for Blue Chelan in Chelan, Wash. This is a grower-owned, grower-controlled cooperative representing approximately 120 growers farming over 3,000 acres of apples and pears in the Lake Chelan area.

I will address the problems that we are facing in the apple industry in exporting apples. To begin with, I would like to explain that we have a superior product. Most people know that Washington State apples are known for their quality worldwide. We have some of the most modern facilities available, modern CA storage, excellent processing and packing equipment, every reason that we can respond to the markets most precisely. We have the port of Seattle and the port of Tacoma to take our product efficiently to the biggest markets in the world.

We have a lot of good reasons to be exporting apples. Probably the biggest is that we have too many apples. The projections are that we will have between 7- and 10-percent crop increases per year barring any major freeze. This is partly a result of the new irrigation projects in the Columbia Basin where fruit trees have gone into thousands of acres.

We still have a good product. We have easy access to the biggest markets. I will address the problems we have with those big markets.

Taiwan is or single largest market above any domestic market. Yet, in Taiwan they have 100-percent duty on the cost of getting the product to the market. That includes transportation. This has put us at a disadvantage with more local apples, Korean apples, or apples that are closer. It has also precipitated some other problems which have caused hardship in our industry.

Because there is 100-percent tax on the transportation, buyers have been forced to look at unrefrigerated transportation of apples to Taiwan. Last year this was quite prevalent. As a result of this, we all know in the fruit industry that is not the way to ship apples. The Taiwan market is new and they do not know that. If we want to sell apples, that is the only way they will buy them.

¹This policy must, as one of its primary emphases, address the issue of coordination of resources within various governmental agencies. Proper coordination and clear emphasis on export, even without additional resources, will be of great benefit.

As a result, the product was inferior. There was a lot of loss and waste. We have a demoralized market. We have millions of dollars standing out, unpaid from the Taiwan deal last year. My firm along with others, has suffered a loss in this fiasco.

This is the result of an unequitable duty structure. Because of the imbalance of trade between our two countries, we would like to see them tax on an f.o.b. basis, that is, the cost of the product at the shipping point.

Another serious problem has to do with protectionistic trade barriers. Again, the biggest potential market is Japan. In Japan our apples are barred from entering that country because we have the coddling moth. They had worked—I think it took some 7 to 10 years—to get the cherries into Japan finally. We do not have our apples there. We believe, we know, that the main reason we are not getting our apples in there is that they are protecting their own industry.

There are things that could be done to open that market, but it is not being approached with the idea of solving the problem. The Japanese are dragging their feet on it.

If we could get just one box of apples in for every car they send over here, we would be happy. Again, with our balance-of-trade problems in the large crops that we do have, we think that is not unreasonable to ask.

The third problem that we are faced with is the same as every other industry in exporting. It is the fluctuating relative value of the U.S. dollar to other currencies. This is presently our problem. The dollar is still strong despite falling interest rates. We don't know when that will change, but it takes away the consistency of moving apples on an export basis.

In conclusion, I would like to remind you that, as you are aware, exporting is jobs. Washington State apples are a valuable industry in this State. We have a lot of the product. If we do not find new markets for our fruit, we are going to be in severe hardship.

Thank you for your consideration.

Senator GORTON. Mr. Skagen, where does the competition come from for our apples in Taiwan? Does Taiwan have a substantial domestic growth?

Mr. SKAGEN. They have their own industry also, yes, but it is not substantial. There are other local apples in Korea and mainland China that come in; these apples come in illegally. However, the Taiwanese like our product.

Senator GORTON. Let me stop you there. There are mainland Chinese apples being exported to Taiwan.

Mr. SKAGEN. I know there are apples in there. I really should have our export sales manager tell me if that is true or not, but obviously you do not think it is—

A VOICE FROM THE AUDIENCE. No. There are Chinese apples in Taiwan.

Senator GORTON. Someone behind you there said no.

Mr. SKAGEN. I do not know exactly. I am guessing when I say where the apples come from. I do know that, with the free-flowing market, there is room for millions of boxes of apples in Taiwan.

Senator GORTON. Then is Taiwan's 100-percent duty primarily designed to produce revenue rather than to keep your apples out?

Mr. SKAGEN. Yes.

Senator GORTON. But in Japan you have exactly the opposite situation. Japan's trade barriers are designed to keep your apples out of the market?

Mr. SKAGEN. Right. Prior to——

Senator GORTON. Could you compete if you were able to get them in there? Could you compete with locally grown apples from Japan itself?

Mr. SKAGEN. We believe we can, yes. Our apples deliver to other markets quite economically. We have the cheapest form of transportation. We have the Pacific Ocean and efficient means of getting them there.

The point is, we are not asking for artificial markets; we are asking for a chance to compete. We really do not know. It probably would depend on our marketing and how we handle it as well as what varieties we ship and what kind of product we deliver.

We have been able to compete in other Asian markets quite well—in Hong Kong, Singapore, Taiwan. I have no reason to believe that we could not compete in Japan. The primary barrier, again, is that we are embargoed from bringing our apples in.

Senator GORTON. Do you have significant export trade with other than those specific nations?

Mr. SKAGEN. Yes. Well, we also export quite a bit to Saudi Arabia and to Europe during certain times of the year, and to some South American countries. However, the biggest export markets are the Asian markets.

Senator GORTON. What percentage of apples grown in the State of Washington are exported to other countries?

Mr. SKAGEN. Well, our firm exports approximately 35 to 40 percent of its crop; at least we did last year. I do not know. I am guessing that our figures are consistent with the industry.

Larry, do you know?

A VOICE FROM THE AUDIENCE. Twenty percent.

Senator GORTON. Twenty percent? OK.

Mr. SKAGEN. As I am sure you are aware, through the Washington State Apple Commission, we are doing everything we can to expand our domestic markets but there is a rather stagnate population. The way to sell more apples is to find the people.

Senator GORTON. Mr. Buckles, does your new company deal only with agricultural exporters or do you deal with manufacturing exporters as well?

Mr. BUCKLES. At this point in time we have only dealt with agricultural products.

Senator GORTON. What kind? How broad a range of agricultural products do you represent?

Mr. BUCKLES. We have shipped asparagus, cherries, apples. We currently are working on beef as well as grain.

Senator GORTON. Are your principal markets also——

Mr. BUCKLES. Yes. Hong Kong, Singapore, and to some degree Taiwan and also Saudi Arabia.

Senator GORTON. When you tell me that one of the problems in dealing with Government agencies is that you have to deal with more than one agency and they do not cooperate with one another very well, even when they work very effectively with you, can you

give me some specific examples? Where do we need to look at improving that cooperation most?

Mr. BUCKLES. When we began we first approached the Small Business Administration. Their knowledge of what was available to exporters was extremely limited. Some of the advice we received from them also was erroneous in terms of the kinds of permits that we might need as an export company. They did not have knowledge. They advised us incorrectly on that. They did not know really what was available in other areas.

We went to the Department of Commerce. We also went to the Foreign Agricultural Service. We found that the Foreign Agricultural Service has probably been the most helpful of all Federal agencies in dealing with agricultural problems that we encountered.

Senator GORTON. Mr. Anderson, what percentage of the hay in the State of Washington is exported to another country? How important are those markets in your business?

Mr. ANDERSON. The export of hay products is very important to the hay industry here in our Northwest and in the State of Washington. As far as percentage, I would say if we also include Canada in that market, it is probably about 25 to 30 percent of the product. The markets in the Pacific countries are relatively new. They probably have come about in the past 12 to 14 years. We have seen fast increases into the Japan market. We have noticed some drop in that due to competition from Canada. We also have competition from Taiwan, rice straw coming into Japan, and also from mainland China. They are shipping alfalfa hay cubes and alfalfa leaf meal into Japan.

We do need to expand and work on the Japan market, so that we start gaining instead of losing a little ground there. We do need to develop new markets such as in Korea, which with their growth, their increase in their dairy and beef animals, that will be an outstanding market, I feel.

There is also some western hay that is going to European markets, primarily into England for the horse industry. We are expanding. It is slow, but I think we are going to be gaining.

Senator GORTON. Mr. Buckles already has outlined for us some of the departments and agencies of the Federal Government with whom he has dealt. Would the other two of you tell us whether or not any of your export programs have been assisted by SBA, Commerce, or the Department of Agriculture?

Mr. ANDERSON. My exporting began about 8 years ago with our Washington timothy hay into Japan. I readily became one of the bigger exporters of baled hay and one of the first in Japan. Very suddenly, I became the biggest importer of Washington hay. There were probably so few dealers. All together we had about five to seven hundred containers that were rejected and sent back due to a plant quarantine problem.

As I say, to be an exporter you have to have a very positive mind. I did become acquainted with the Foreign Agricultural Service staff in Washington, D.C., who immediately opened communication in Tokyo with Japan Plant Quarantine and Japanese scientists. We had several meetings. Our USDA Science Research people became involved out of the Midwest. I came out here to Washing-

ton where we did several fumigation tests. We actually had the FAS, the Science Research people, and the AFIS people, along with cooperation from the Japanese people. Actually, we worked this problem out. It was a good example of agencies working together.

If you have good enough communication from industry through Government, I feel this can be accomplished.

Senator GORTON. Mr. Skagen, what about you?

Mr. SKAGEN. Our firm has not, but I know of others who have used the agricultural attaches in foreign countries to help them find the markets. However, generally speaking, we have not done that. We found them quite cooperative whenever needed, though.

Senator GORTON. In the course of the past couple years how adversely have any of you been affected by the constant increase in the value of the U.S. dollar as against most of the foreign currencies of foreign countries with whom we trade? Has that had an impact?

Mr. SKAGEN. With our industry right now, this is the major reason we are not shipping any apples now. It may be more of a factor of the inconsistent level rather than the high level. If the values of the other currencies were more stagnate toward ours, then the market would establish itself.

Mr. ANDERSON. I would say with the hay industry that because of the higher value of the U.S. dollar I think at the year end the imports of U.S. hay into Japan will probably be down about 35 percent. I am sure it will have a serious effect on the amount of Washington hay that will have gone to British Columbia over the past 3 or 4 months. It has been a really dull condition in the hay industry due to the exchange rate on our hay going out of the country.

Senator GORTON. Mr. Buckles, what about your clients?

Mr. BUCKLES. As a new company, I believe we have very, very limited experience. There have been some problems in breaking into markets because of the exchange rate.

Senator GORTON. Here is a question for Mr. Anderson and Mr. Skagen: What impact would you estimate that your fairly substantial exports have on domestic prices for the balance of your crops? Is it lowered? Does it tend to mean that you can operate more efficiently, so that even your domestic customers benefit? Does it keep prices high?

Mr. SKAGEN. With the apple industry, it has kept the FOB prices higher. It has not affected the retail prices substantially. Apples are an item that are used at the retail level to cover losses for other departments. Even though apples now are maybe \$10 or \$11 a box, they are still 69 cents a pound. If the apples were \$15 a box as they were this time last year, the price was still 69 cents a pound.

What it has done is kept some growers in business. I am sure that if we do not expand our export markets along with our domestic markets, there are a lot of growers who will not stay in business.

As you probably are aware, we have a perishable agricultural product. If you increase your supply maybe by 10 percent, you do not see just a reduction in your price by 10 percent; there is a push on that market. You may see a 30-percent reduction in your price

to your grower. Every market we get, every new market that we get, drastically affects the livelihood of our growers.

Senator GORTON. Have any of the decisions which the Government has made on export controls or boycotts or the like in other product areas had any impact on your own exporting activities? Do they raise questions about supplies or are they simply irrelevant to the way in which all of you have done business?

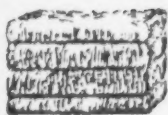
Mr. ANDERSON. I might make a comment on that. Even in the hay industry, if you are in Japan, often the soybean embargo is brought up which was several years ago. I am aware of a trade mission from New Zealand and one from Australia where this is one of their selling points in trying to get that market to buy more of their hay products. They cannot really depend on the American supply because they do not know when it might be shut off.

Senator GORTON. You strongly advise against any further agricultural boycott?

Mr. ANDERSON. Please.

Senator GORTON. I would like to thank each of you for coming and joining with us this afternoon and for what I consider to be most helpful testimony. Thank you all.

[The prepared statements of Mr. Anderson, Mr. Buckles, and Mr. Skagen follow:]



Anderson Hay & Grain Co., Inc.

Telephone Area Code 509-925-9818 Telex 152011

Post Office Box 99 • South Anderson Road • Ellensburg, Washington 98926

October 14, 1982

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OCT 18 1982

Senator Slade Gorton
Spokane

Senator Slade Gorton
770 U.S. Courthouse
West 920 Riverside Avenue
Spokane, Washington 99201

Dear Senator Gorton,

Exporting is not an easy business nor one that offers easy guaranteed success.

Export markets do not come to a company and to develop an export market for a product is costly. It takes time and often companies with interest become discouraged immediately.

Problems such as lack of information on exporting, regulatory problems, financial and monetary problems can seem to be major problems to a company considering export.

However, I feel our government has developed excellent programs to encourage exports. The services are available to all, including small business. It is up to the business to go to the effort and expense to take full advantage of and develop their market.

My exporting began with an interest for Washington state timothy and grass hay in Japan. The demand developed quickly and then came to an expensive halt due to a Japan Plant Quarantine regulation.

It seemed like an impossible obstacle to eliminate until I became acquainted with our U.S. Dept. of Agriculture Foreign Agricultural Service. They immediately opened communication with Japan government officials through their Tokyo office. Soon USDA Science Research and USDA Animal Plant Health Inspection Service became involved in finding a solution to the problem.

This proved the success that can result when government agencies work together with industry. After several fumigation tests and meetings with Japan government agencies, a USDA Certified Fumigation Program was accepted by Japan and the Japan regulation amended.

WORLDWIDE SUPPLIERS OF HAY IN ALL FORMS

This reopened a \$3 to \$4 million dollar market for Washington state mixed grass hays.

Our USDA Foreign Agricultural Service is well equipped and anxious to help people in export and those who have interest in beginning export.

The Foreign Agriculture has two weekly publications I have found most helpful

Export Briefs - where foreign buyers advertise for agricultural commodities

Contacts - where all interested exporters can advertise their products. This is sent throughout the world.

I feel the newly formed U.S. Trade Offices, which serve the promotional side of agricultural products in foreign countries, are successful.

The Commerce Department and the Agricultural Department have several export seminars across the United States each year specifically to inform and interest individuals and companies in export.

Also through USDA FAS is the cooperator program, where commodity associations and groups can have matching funds and help in promoting their industries and products. The National Hay Association is a new FAS cooperator. This will enable the hay industry to better serve present markets and develop new markets around the world.

Some obstacles are:

1. Foreign countries restricting or highly taxing imports of specific commodities or products
2. Foreign country regulations, specifically in my industry, Plant and Animal Quarantine
3. Ocean transportation costs
4. Financing
5. U.S. Federal Government trade embargos
6. Strong American dollar to foreign dollars (a serious obstacle the past year)

I feel obstacles can eventually be overcome and our government can and will help.

I strongly urge the senate and congress to support legislation and budgets of the departments in government that can and do help our country's exports. It does take money to develop and properly serve our exports.

Sincerely,



Ron T. Anderson

CENTON, LTD.

CENTRAL WASHINGTON EXPORTS

P.O. Box 126, Selah, Washington 98942, U.S.A.

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Spokane**

October 14, 1982

Senator Slade Gorton
770 U.S. Courthouse
West 920 Riverside Avenue
Spokane, Washington 99201

ATTN: Clifford Webster

The Honorable Senator Gorton:

I wish to thank you for the opportunity to testify before the Senate Small Business Committee field hearing on "Obstacles to Exporting Faced by Small Businesses".

I represent a company which has been in business approximately one year and is developing as an export brokerage as well as to provide export management services to companies that have products available for export.

As a new small business the obstacles and hurdles particularly related to the complexities of exporting are numerous. They include the obvious such as the extensive time necessary to locate and validate customers, identification of unique market characteristics and requirements, time and expense in market development, and risks related to perishability of many products. These hurdles are intensified by the lack of a comprehensive policy toward exporting by the Federal Government.

Export resources are scattered throughout the Federal bureaucracy. They can not be easily located and once located there is no assurance assistance will be provided. If provided, there is no assurance it will be supported, particularly if it involves the financial resources of the agency. Agencies do not work together to maximize their resources.

The best example of this type of barrier exists with the FCIA insurance program. Our application for the small business coverage intended for small businesses new to exporting was turned down for lack of experience, by the Export-Import Bank. It was recommended that we apply for regular FCIA coverage. Our application for regular coverage was referred back as more appropriate for coverage under the FCIA small business policy. These delays and uncertainties regarding coverage have made it impossible to build on many of our established contacts.

Finally the lack of a program to provide bonding on bids to tenders from

Telephone: (509) 697-3636

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Foreign governments creates a substantial barrier for small businesses to participate in many opportunities which often are not addressed by the larger firms.

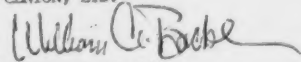
It is my feeling that a comprehensive export policy needs to be developed as the basis for the administration of the various programs designed to assist export companies.

Also I feel that the insurance program needs to be more accessible to small businesses and a bonding program enabling small businesses to bid competitively needs to be established.

Again I thank you for the opportunity to express these ideas and hope that they will be of assistance to you.

Sincerely,

CENTON, LTD.

A handwritten signature in dark ink, appearing to read "William A. Buckles", with a long, sweeping horizontal line extending to the right.

William A. Buckles
President

WAB:kar



BLUE CHELAN

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P. O. BOX 789 • CHELAN, WASHINGTON 98816



October 14, 1982

RECEIVED

OCT 18 1982

To Whom It May Concern:

Senator Slade Gorton
Spokane

RE: Obstacles in exporting Washington State Apples

In exporting Washington State Apples, we have a lot of things going for us:

1. We have a superior product known for it's quality worldwide.
2. We have modern storage facilities which, along with a good product, allow us to market apples nearly year around.
3. We have modern packaging equipment, greatly reducing the variance in grade and weight while offering the ultimate in packing flexibility.
4. We have the Washington State Apple Commission, grower owned and grower controlled, to promote our product.
5. We have the Pacific Ocean, the Port of Seattle, and the Port of Tacoma to take apples efficiently to the biggest world markets.

The list goes on and on. We have many good reasons to export our apples, the best reason being the record crops we will realize in the future and the need for every available market for our product. The alternative could be disastrous for many growers in this state.

It is for this reason I request you address the serious problems our industry has in exporting apples.

- A. The most immediate problem is a result of excessive and unfair tariff structures. The best example is Tiawan, where there is a 100% duty and tax on the delivered cost of all foreign apples, including the cost of freight. This tax on freight has motivated buyers to buy apples in unrefrigerated containers to save money. The results have been disastrous: a poor product, people losing money both here and in Tiawan, and the demoralization of our largest export market.
- B. Another serious problem is a result of protectionist trade barriers. Japan - oh how nice it would be to sell just one box of apples for every car they send here! Barriers have been set for reasons, but reasons that don't make much sense when you consider the trade balance between our two countries. In truthful terms, the Japanese government is protecting it's fruit industry. It seems like a one way street when it comes to foreign trade.

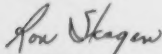


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- C. The fluctuating relative value of the U.S. Dollar to other currencies is a problem that may be bigger than all the rest. I have no answers, but it is a problem.

In conclusion, the Washington State Apple is a superior product in abundant supply. Exporting it will help everyone in this country, however we need your help. These problems are international in nature and beyond our means of correction. Your help would be greatly appreciated.

Yours truly,


 Ron Skagen
 Assistant Manager
 Blue Chelan, Inc.

RS:mc

Senator GORTON. Our next panel will consist of Mr. Williams, Mr. Kotkins, Mr. Zirkle, and Mr. Swanson.

Please take your places.

Mr. Williams, we will begin with you.

STATEMENT OF LARRY G. WILLIAMS, PRESIDENT, TEKMARK INDUSTRIES, INC., SPOKANE, WASH.

Mr. WILLIAMS. Thank you, Senator.

I am Larry Williams, president of Tekmark Industries. We are a manufacturing company with a primary product line of equipment and supplies for the water well drilling industry worldwide. In fact, our sales have shifted from 90 percent domestic over 3 years to 90 percent export sales due to the depressed housing market in the United States. Water well drilling is closely related to rural housing starts in this country and agricultural irrigation, which has been depressed by high interest rates.

I am also president of the Inland Empire World Trade Club. I come in contact with many export companies in the Inland Empire. We often discuss related problems of export.

I think the No. 1 question is why many small businesses do not export. Some do, like my firm, but most small firms do not export.

My position as president of the Inland Empire World Trade Club has provided an opportunity to discuss this issue with a number of small manufacturers and business men and women in the Inland Empire.

Probably the question asked most by small business people is, how do I target customers in foreign markets and then how do I sell them once I have targeted those people?

Some answers to these questions discourage small businesses. I think most small businesses just do not have the capitalization required to take the initial expense of developing international markets. Firms, such as my own, that have made low-cost contacts through trade shows, through the help of the Department of Commerce, and so forth, and developed markets then can reinvest profit made in those markets to further develop the markets. We can afford the travel, the \$8,000 to \$10,000 a trip.

I propose that small businesses need to be assisted in finding their initial market. There are currently resources available at the

Federal, State, and local levels which address this issue. The U.S. Department of Commerce, the International Trade Administration, and the SBA all are helpful in this area.

At the State and local level, the State Department of Commerce and Economic Development, the World Trade Club, the Washington Council on Trade, and others can provide help. These groups, together with the Inland Empire World Trade Club, with the help and assistance of a number of other entities in the northwest, are sponsoring a trade convention and exposition in March of 1983 in Spokane. Basically, it will be entitled the Pacific Northwest Trade Conference and Exposition. Governor Spellman has agreed to be honorary chairman. We have a number of outstanding speakers. Basically, we are going to focus on these problems, ways in which to help northwest exporters and potential exporters to solve some of these problems. This is one type of activity that can help stimulate more exports in the State.

However, I would suggest that the following types of problems needed to be focused upon much more: There needs to be improved coordination and dissemination of export resource information. Grassroots outreach programs should be developed and promoted. Improved interagency and interorganizational cooperation and planning is needed. Develop more programs to initiate low-cost contacts between potential exporters and foreign buyers, such as trade shows and trade missions to this area. Develop more timely identification of specific export opportunities. Finally, initiate subsidies in the form of grants, low-interest loans, and tax incentives to overcome small business' perceived risk in initiating export programs.

I believe a great deal of the problem comes with the initial development of the market. Once a small firm establishes sales and those sales become significant with reference to their total sales program, they usually are able to go forward and continue expanding that market. It is difficult, though, to get small firms, firms that are not highly capitalized, to spend the necessary initial money to develop or to target specific audiences overseas.

Thank you.

Senator GORTON. Thank you.

Mr. Swanson?

**STATEMENT OF DALE C. SWANSON, PRESIDENT, PYROTEK, INC.,
SPOKANE, WASH.**

Mr. SWANSON. I am Dale Swanson. I am president of Pyrotek. We manufacture industrial supplies and export to just about all the industrial countries of the world.

Our problems with exporting, where I think the Government might have any participation in solving them, are primarily concerned with getting information. This information falls into two categories. The first is information on the foreign markets. We sell to industrial plants. We need to know the location, size, and nature of such plants in foreign nations. Our present sources are word of mouth and commercial publications. They are not specific enough to suit our purpose.

As an example, right now we want to know about aluminum plants in Southeast Asia. We are making a major sales effort in

this area. I know we are going to find most of them, but we are not going to find them all. We will not target perhaps the ones that would be most effective to target.

I feel sure the Government has resources available to get this type of information. In my office I have a list of aluminum producers that was published by the Department of Commerce that may be still the best I have, but it was published 14 years ago. It is badly out of date. It could be improved tremendously.

I have requested an update of this list from the Department of Commerce field personnel on several occasions, but have gotten nothing from them.

The second type of information that would be very useful to us is on foreign import duties. Here, again, we have attempted to get this information from U.S. Embassy personnel in foreign capitals, but this has been a total bust, I would say. They have not been co-operative in this effort.

Senator GORTON. Excuse me. I want to interrupt you. What do you mean by "not cooperative?" You get no response at all or an inadequate response?

Mr. SWANSON. They smile nicely and shake my hand and say, "We'll sure look at this." We don't hear from them again. I also have some idea that those fellows really do not go to work very often. If you would like an example of that, I will give it to you, too.

Senator GORTON. Go right ahead.

Mr. SWANSON. I was in Tehran several years ago. I was brand-new. It was my first visit. I decided to go to the U.S. Embassy to see if I could get some assistance in locating the industry which I serve in Iran. This was before the Ayatollah came in.

You saw this on television. They had the riots there. This thing is about three blocks square. It is about 17 times the size of any other embassy in Tehran there.

I went to the gate and the armed guard said, "No, they are not in today. This is Friday. This is the Moslem weekend," which is Thursday and Friday, I believe. I said, "Fine. I will come back tomorrow." I came back Saturday and they said, "Well, they are not in today. This is the American weekend." [Laughter.]

I was staying there a few days, so I said, "Well, I will come back Monday." I came back Monday and they said, "Well, they are not in today. This is Columbus Day." I would expect Monday probably would be "Iranian Poppy Day," or something.

They wondered why the Embassy people there had no idea why the Ayatollah was going to come in. They were completely surprised. I know why they were surprised; they had never been there. [Laughter.]

The information on foreign duties really is quite essential to doing business in other countries. A particular item, a manufactured item, can enter a foreign country under one of several duty classifications. The duty can vary from 5 percent to 30 percent or more, and this can be the difference between making a sale or not making a sale.

The duties will vary depending on whether the item is completely manufactured or partly manufactured. Maybe we can do something that way.

They also depend on what you call the item sending it into the country. For instance, you could call an item a ceramic part or you could call it burner orifice. They both would be correct. One is more of a generic term and one is a specific term, being very honest. You could adjust the duties perhaps by a large percentage by the right nomenclature.

We have an awful time getting this information. We have gotten it in some cases, but it has been very difficult. We would appreciate any help we could get in this area.

Another specific problem we have right now is getting rebates on duties we pay on items that we import and then re-export. Now this is a legitimate thing. It is legally ours. We have been trying to get this for a year without success. The Department of Commerce paperwork and agency maze has beaten us so far in this.

There are companies that make their living by doing this for us for a fee. We thought we were smart enough to do this ourselves, but I am starting to believe maybe we are not. It seems to me a problem such as this involving the internal structure of the Government itself is a proper area for assistance by the Government.

What should the Government do? I propose that an address be made available. I presume this would be in Washington, D.C. It would be where small businesses can direct questions and requests for information on markets and duties. It also should be prepared to answer general questions on exporting, such as paperwork requirements, terminology, credit systems, and so forth.

Hopefully, as least, when they come and see the information is not available, I would like to feel that it has been properly addressed and an effort has been made in the correct directions.

I am now told that such inquiries should be directed to the field personnel, but my personal experience has been that I have no confidence in the field personnel. I want somewhere else to go which would be a central depository of information or a central source of information. This would be the only specific request that I would have.

Thank you.

Senator GORTON. Thank you.

Mr. Kotkins?

STATEMENT OF H. L. KOTKINS, JR., PRESIDENT, SKYWAY LUGGAGE CO., SEATTLE, WASH.

Mr. KOTKINS. My name is Skip Kotkins. I am president of Skyway Luggage Co. in Seattle. We are a manufacturer and an importer of luggage, travel goods, et cetera, primarily consumer goods. I also am very active in the Luggage & Leather Goods Manufacturers of America, which is our national trade association and one which has recently qualified for technical assistance under the import-impacted-industries program. About 60 percent of the luggage items sold in the United States last year were imported.

One of the points of that TAAC certification was that efforts should be made in terms of increasing the exports of the luggage industry as a counter to the imports. Less than about 3 percent of the luggage products manufactured in the United States are ex-

ported. In our company we are about 10 percent, primarily to Canada, also a little bit to Western Europe.

The thing which struck me when I was listening to the agricultural panel is that we are not dealing in a commodity. When you are talking about apples, peas, or wheat, you can take all of the small businessmen and put them together under one organization that can lobby for the exports of that particular product. Because we are not a commodity and my luggage is different from somebody else's luggage, the practical trade unit is between a company in the United States, almost all of which in the luggage industry are small businesses, and a retailer in a foreign country, rather than having something done on a trade association basis. You cannot really have a trade association lobbying for a lot of different small companies.

As I said in my written testimony which was submitted, the key thing in terms of exports for our industry and for our company is identification of customers in foreign countries, potential customers. We do not need somebody to go and sell them for us. We are perfectly capable of doing that. However, when the customer is a store, a single store, probably privately owned, not necessarily a large chain, and because our products are so large—they are great big boxes of air, and you pay a lot to ship those things around the world by ocean freight—they tend to be the higher-priced stores in the country. They tend to be fairly small. Finding those people, making contact with them, is a real problem.

We have been in a number of situations in Western European countries where they are receptive to trade with the United States where I will go and say to somebody in the local Embassy, "I need to know who are some of the people that are possible customers for our product." I echo the comments that were made to me. What I get are some very willing, very eager, there, if you are lucky, from 10 to 3 local citizens who are employees of the Embassy who are anxious to get home to wives and kids and not willing to go out of their way very far. I guess I hate to make that too much of a generalization, but in has been my experience.

We need somebody in a country to help us find the market. Once we get those initial directions, we can go and pursue them.

One point I want to make regarding the Export Trading Company Act, is that the Export Trading Company Act, I think, as it is drafted, certainly is going to be a good thing for small business. However, the notion of somebody coming in on a white horse and taking away all of your export problems, for some businesses that might be fine but I think it has two potential faults.

No. 1, I do not want somebody to take over all my problems because I am perfectly capable of selling my product, and I think I can do a better job than teaching somebody else to do it and paying him for the right to do it.

The second thing is that I do not want the Government to get the feeling that they have assuaged their guilt or obligation to the small businessman by creating an Export Trading Company Act when they still have a lot to do in-country in terms of the commercial sections of the embassies.

Those are a couple specifics in that area. There are two other very specific problems that we have encountered. When you have a

very small industry, the chances of getting on any kind of trade negotiation agenda are slim. One of them is Mexico. Depending upon who is in power and how they feel this week, the ability to export to Mexico goes up and down. You have a tremendous difficulty. You set something up and then suddenly next week you cannot do it because they shut that off. I do not know if there is any hope for getting some stability there.

We also have a problem with Canada. I need somebody who has some contacts in the Canadian Customs Office. We are at the mercy right now of a low level bureaucrat who is trying to make a hero out of herself. I hate to say it, but that is exactly what is going on. We do not have anybody who is plugged in enough with the Canadian trade people to be able to get something decided on a higher level.

In summary, I guess I am saying that what we need and what we see is a need not in the United States but in the country of destination to help the small business exporter.

Senator GORTON. Thank you.

Mr. Zirkle?

STATEMENT OF LEWIS G. ZIRKLE, PRESIDENT, KEY TRONIC CORP., SPOKANE, WASH.

Mr. ZIRKLE. Thank you.

I would like to cover a little bit different angle. Key Tronic is the largest producer of electronic keyboards for the computer industry in the world. It is only 13 years old. It started in Spokane and has developed all internally. It is manufactured 100 percent in the United States right now.

The computer industry itself is moving offshore, the same as the television industry and the radio industry. In other words, my own estimate is within 3 years 50 percent of all computer hardware will be manufactured in the East; that is Korea and south. Therefore, for us to succeed and stay in our position, it is necessary for us to go over there to manufacture. Therefore, within 12 months we will promptly have facilities in Korea, Taiwan, and Singapore.

There are very good reasons for this. I spent 4 weeks over there myself to find out why our customers went over there first. The biggest reason—most of us think we go over for cheap labor. That is not so. It is a small factor, but it is a factor. The main reason for going over there is the cost of Government and interest. In other words, the cost of Government—our taxes and regulations are putting such a burden on us that we cannot compete.

Also, there is the cost of money, which all of us need a lot of. I have paid as high as 22 percent for money. We cannot afford it to stay competitive.

Coming down the line, the cost of material—in other words, the materials that we buy, we can buy material over there for 15 to 40 percent cheaper than we can, for the four same reasons—they are manufactured there.

Another factor is the cost of labor, the cost of human effort. Of course, that is a factor. On the other hand, I could reduce all of my direct labor costs in my company and still might not be able to compete, so it is only a minor factor.

The other is efficiency of human effort. I recognize in the country as a whole we have a problem. In our company we do not. I will match the human effort and efficiency in my plant against any plant in the world, and there are a lot of them.

That is the situation. It is the cost of domestic production which is hurting us, all the small businesses as well as large businesses. That is a very dangerous thing because I estimate in the next 5 years my company alone will have over 500 employees in Asia which should be over here. That bothers me a great deal.

I think all of us, as expressed here at the table, need marketing information. The Government is not supplying it. I do not think it should. I do not think it is capable, and I do not think we should expect it to do so. It is a separate business. It is not a Government business or a bureaucratic business. It is something a free enterprise has to handle itself to be effective. Maybe we should give them some help. On the other hand, I cannot agree because I am getting very little accomplished through our own Government overseas. I get a great deal of help from the banks. Most of it is digging ourselves or hiring somebody to do it for us.

As far as subsidies are concerned, I am against subsidies. Really, the only thing that does is help the weak and weakens the strong.

That basically is my pitch. Thank you.

Senator GORTON. Thank you very much.

One subject which none of you or any of the other witnesses have mentioned is either domestic or foreign trade shows. Do they have any positive impact on exports? Have any of you had any experience with them?

Mr. SWANSON. Our product is so specialized that it just does not function in that type of medium.

Mr. KOTKINS. We have been involved in some foreign trade shows, but, just as in this country the trade show is run by the American Manufacturers Association, the trade show in Germany is run by the German Manufacturers Association. The last thing they want to do is let an American company come into their forum to steal their customers. Therefore, it is pretty hard to get into the foreign trade shows.

Mr. WILLIAMS. In the past few years, Senator, we are seeing more and more foreign buyers visiting American equipment trade shows, national U.S. trade shows, but they are attracting potential foreign buyers. In fact, most of my exports in Tekmark Industry are a result of trade show contacts with foreign buyers which developed the initial phase.

Senator GORTON. But there are trade shows which have taken place here in the United States.

Mr. WILLIAMS. That is correct; as opposed to foreign buyers. I am on the board of directors of the Washington International Trade Fair, which is a 30-year-old organization that takes Washington companies overseas. It has been quite effective. Again, it depends upon the makeup of the company. Mr. Swanson's company, their product does not fit. They need to target the end users. Consumer-type products work better perhaps in trade shows and generalized industrial products than specific high-tech products.

Mr. ZIRKLE. We use trade shows all over the world very effectively. In fact, we will be in one in Korea in another week's time. So it

is not only in this country, but there are several trade shows in this country, and they are visited by most foreign countries.

Also, the trade show in Korea is at about the same time as the trade show in Japan and Taiwan. The buyers make a complete circle, the three trade shows at the same time. We use them very effectively.

As far as trade zones go, we do not use trade zones at the present.

Senator GORTON. On another subject, will any of your companies be involved with or utilize the new export trading company legislation?

Mr. WILLIAMS. I don't plan to do so.

Mr. KOTKINS. No.

Mr. SWANSON. No.

Mr. ZIRKLE. No.

Senator GORTON. Is that a negative answer on the part of all of you?

That is very interesting. How about DISC?

Mr. ZIRKLE. Yes.

Mr. SWANSON. Yes.

Mr. KOTKINS. Yes.

Mr. WILLIAMS. Yes.

Mr. ZIRKLE. Yes. We have now for 3 years, something like that.

Mr. KOTKINS. As I said in the written testimony, I feel that is the one weapon that we have. It allows us to cut somewhat the selling price to the foreign country because the profit margin that we take home after taxes is maintained by the DISC to be a little bit higher, so it does help subsidize our export costs.

Mr. SWANSON. We use DISC and are very impressed with the results we get from it.

Mr. WILLIAMS. It is the same here.

Senator GORTON. That one is unanimous.

I asked the agricultural people about our own American foreign policy export controls. Has any of you come up against them or has any of you had your exports impacted by the use of them in other areas?

Mr. KOTKINS. No.

Mr. ZIRKLE. No.

Mr. WILLIAMS. No.

Mr. ZIRKLE. There is a little bit of feeling in Japan itself, but that is an internal situation. We do not sell and cannot sell in Japan.

Senator GORTON. Has any of you encountered any problems as a result of the provisions of the Foreign Corrupt Practices Act?

Mr. KOTKINS. No.

Mr. WILLIAMS. We run across it quite often, and we find it a necessity to be extremely careful with the distributors. It is not unusual for distributors, both in South America and the Middle East, to bring up the subject of commissions. As far as we are concerned, we sell to a distributor and what he does with it after that is his problem. We are very careful to monitor that process and not become involved.

It does cause problems because in the Middle East there is an expectation in the market to pay commissions to many government

employees who are involved in the tender process. We avoid that by selling to an in-country distributor and he handles the tender process from then on.

If the law were relaxed to some degree, we might go more direct than we are now. However, because of the law, we are extremely careful.

Senator GORTON. Are you familiar with the proposals which passed the Senate on that subject this year?

Mr. WILLIAMS. Yes.

Senator GORTON. Will they help?

Mr. WILLIAMS. I think they will help.

Senator GORTON. Finally, I would like your comments, as I did the agricultural group, on the impact on exports of constantly increased value of the dollar. Does that adversely affect or has it significantly affected any of you?

Mr. WILLIAMS. It has affected one of my related companies a great deal. We sell heavy equipment overseas. We are finding the last 12 to 18 months our market has been greatly reduced, offset by the Japanese and the Europeans in the developing companies. We are just waiting for the dollar to drop to become competitive again. We cannot tell our distributors to buy from us when we have almost the identical product coming out of Europe at a lower price because of the relative difference between the currencies.

Mr. SWANSON. Yes. That hurts everyone. When you are competing overseas and the dollar goes up, you are just that much less competitive. We are addressing that problem partially by putting plants in overseas. We have established several plants overseas now, and this is one way around this thing.

There are other reasons for putting plants overseas, though. That is not the reason certainly.

Mr. KOTKINS. To the extent that one of our biggest export markets was Western Europe and that is where the dollar exchange has been most dramatic, we have been shut out of Germany, Switzerland, the Scandinavian countries, and almost every place in Western Europe except the UK and Holland, strictly because of the 30 percent or more increase in the dollar.

Mr. ZIRKLE. I expect it to force us into putting facilities in Europe for manufacturing in order to meet the——

Senator GORTON. When you talk about putting facilities in Europe, does that mean that you expect the present condition, the present strength of the dollar, to continue rather than to be cyclical?

Mr. ZIRKLE. I do.

Mr. KOTKINS. Economists have been telling us that the pound was going up for some time. They said as soon as the U.S. interest rates came down, then the dollar was going to get weaker. Now the U.S. interest rates are coming down, and they are coming right down with us. It looks like it—dollar strength—is there to stay.

Senator GORTON. I would like to thank each of you for helping us with insight into the specific problems which you addressed. Thank you very much.

[The prepared statements of Mr. Williams, Mr. Swanson, Mr. Kotkins, and Mr. Zirkle follow:]

TEKMARK INDUSTRIES, INC.

Drilling Equipment

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OCT 18 1982

1228 EAST 34th AVENUE
SPOKANE, WASHINGTON 99203
509-747-2485Senator Slade Gorton
SpokaneTo: The Senate Small Business Committee "Obstacles to Exporting
Faced by Small Businesses."

Larry M. Williams, President, TekMark Industries, Inc.

Why don't small businesses export? While some do, most don't. My company's involvement in export and my position as President of the Inland Empire World Trade Club has provided the opportunity to discuss this issue with hundreds of small business men and women. The most often asked questions are "How do I target specific customers in foreign markets?" and "How do I sell these potential customers?"

Some answers to these questions immediately discourage small businesses and perhaps go to the heart of the matter--COST.

Most small businesses do not have the capital base to aggressively develop export markets. The cost of foreign travel and the cost of qualified international marketing personnel is so high that the small business manager considers the investment too great considering the risks. Small businesses who have managed to develop international markets without large initial investment often redirect earnings to further develop these international markets.

I would propose that small businesses need to be assisted in finding their initial international markets. There are currently resources available at the federal, state and local level which address this issue. The U.S. Dept. of Commerce, the International Trade Administration and the Small Business Administration each can and are helping. At the state level the Washington State Department of Commerce and Economic Development and the Washington State International Trade Fair are important resources. At the local and regional level such organizations as the Washington Council on Trade, the World Trade Clubs and various trade associations are playing an important role.

The Inland Empire World Trade Club with the help and assistance of many of these groups will present the Pacific Northwest World Trade Conference and Exposition at the Spokane Sheraton on March 22, 23, and 24th, 1983. The mission of this conference and exposition is three fold: to bring 150 foreign buyers to the Northwest and interface these buyers with a representative sample of Northwest products; to provide an in depth examination of exporting for Northwest Businesses; and to expose Northwest college students to careers in the export field. The conference and exposition is one approach which will focus more interest and activity in export development.

The level of exports from Washington State are high when compared to other states but could be increased significantly if most, not a few, small businesses were to develop international markets.

How can we help?

1. Improve coordination and dissemination of export resource information.
2. Grass roots outreach programs should be developed to promote export.
3. Improve interagency and interorganization cooperation and planning.
4. Develop more programs which initiate low cost contact between potential exporters and foreign buyers.
5. Develop more timely identification of specific export opportunities.
6. Initial subsidies in the form of grants, low interest loans and tax incentives to overcome small businesses perceived risk in initiating export programs.

Larry G. Williams
President

Pyrotek

INCORPORATED

East 9601 Montgomery Ave., Spokane, Washington 99208
Phone (509) 926-6211 / Telex: 326404 / Cable: PYROTEK SPK

October 8, 1982

RECEIVED

OCT 12 1982

Senator Slade Gorton
2988 New Federal Building
915 Second Avenue
Seattle, Washington 98174

Senator Slade Gorton
Spokane

Attn: Mr. Clifford Webster

Gentlemen:

This is in response to your request for information on obstacles to exporting and proposed government action to stimulate exporting by small business.

Pyrotek Inc. makes and markets high temperature industrial products. Our sales last year were about \$19 million. About 30% were exported. The 30% figure has held about constant for the past 20 years as our sales have increased. In 1973 we received the Commerce Department's "E" award for export achievement. We now have four plants in the U.S., two in Canada, one in Australia, and we will have one in England by the end of this month.

In 1980 I received the S.B.A. Small Business Person of the Year Award for the State of Washington.

I hope the above will establish any credentials I may have as competent to answer your questions.

A. Obstacles to exporting.

1. Getting information on foreign markets. We do not have any reliable source for such information. Right now we want to know the location and size of aluminum plants in Southeast Asia. We do not know where to go for this.

We recently got an excellent reference on fiat glass manufacturing plants in the world. It was published in English by the Japanese. This may be our best source?

2. Getting information on foreign duties. We have tried to get this from U.S. Embassy personnel. It has been a total bust. They are not cooperative. They do not even seem to go to work very often.

Information on duties is essential to good export management. This knowledge is often the difference between the customer paying 6% or 20% duty - and the difference between getting orders and not getting them. This takes some real digging along with knowledge of the products involved and their uses.



High Temperature Materials Technology Since 1956

Senator-Slade Gorton

October 8, 1982

For instance, duties are often changed dramatically if the product is not quite finished when it is imported. Or a "ceramic part" can also be honestly called a "burner orifice".

I understand the Japanese are sending small trucks into the U.S. with jump seats in the exposed back of the trucks because of a loophole in U.S. duty laws. They know the value of such information.

We do not know how to get such information.

3. Getting rebates on duties paid on products we import into the U.S. and then re-export. We have been trying for a year to get this (which is legally ours) but so far the paperwork maze has beat us. I expect Boeing would not have these problems.
4. Get big government off everyone's back. Balance the budget so interest rates can come down. Create a general business climate where we can all operate. I realize this is beyond the scope of this activity but I thought it worth mentioning.

B. What should government do?

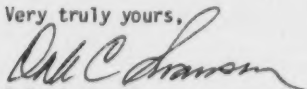
1. Set up an address and a staff where we can go to get specific information on markets, duties, and other aspects of exporting. Have one place that can at least tell us the information is not available.

I suspect now that much of it is available but no one even in government knows where to get it.

2. Cut back the huge staffs (the field staffs are the ones I see) of the Department of Commerce, S.B.A., and other government agencies. I do not appreciate these people coming around to me, saying they are here to help me, and then doing nothing even on specific requests. I am paying their salaries and I do not want them. Their goals are growth and self proliferation - about the same as mine. But I produce something and they do not.
3. Get a stable business climate based on sound fiscal policies and then leave us alone. We will get the job done.

I hope this is helpful.

Very truly yours,



Dale C. Swanson
President

cc: 770 U.S. Courthouse
Spokane, Washington 99201

DCS/dv

Telex 32-0251
SKYWAY SEA



SKYWAY CENTER
SEATTLE 98121
PHONE (206) 823-5300

October 15, 1982

To: Senate Committee on Small Business

Re: Written Testimony to Field Hearing on Obstacles to Exporting Faced by Small Businesses.

I. The problem

The U.S. government deals in global matters on a necessarily large scale basis. In the final analysis, international trade is permitted only in the context of international politics. If trade is politically acceptable between nations, then the negotiation of trade agreements and policies proceeds on primarily economic terms.

Because any disagreements or uneasy feelings generated out of trade negotiations may ultimately filter into the arena of political relations, there is a basic reward potential which must be present in order to justify risking such disagreements and uneasy feelings.

Therefore, the bulk of U.S. trade policy centers on the big deals - and therefore, by definition, the big exporting companies.

This concentration of international trade emphasis by the U.S. government on big businesses is aided by well organized, well financed information flow, business-government contact and lobbying on the part of big business. And this is as it should be. If a business stands to profit in a big way, they must invest time, effort and money to get what they need.

But small business has none of the ingredients necessary to make its needs felt: It lacks the size of potential sales to justify the U.S. neck being stuck out in bilateral or multilateral trade negotiations. It lacks the sophistication and staffing necessary to mount a campaign to make its needs known. It lacks the money to finance such a campaign.

The needs of small business can be summarized. The recently published report of the Committee's survey does a good job. But it is the nature of government to extrapolate from the specific to the general. And the needs of small business are not general, but very specific to each firm. The next step of translating the needs of small business in general as outlined in the survey report, into specific assistance for specific firms in specific little instances is a very big step indeed.

• PLEASE ADDRESS REPLY TO THE COMPANY, MARKING IT FOR THE ATTENTION OF THE WRITER •

II. A conflict of viewpoint

The perspective of Government on small business starts with the SBA, the ITC, and the various administrative, legal etc. entities and acts which apply to the problem.

It may astound the Committee to learn, for example, that until I read the July 30 Survey report, I was personally unaware of the existence of the Small Business Export Expansion Act.

You see, the perspective of a small businessman is one of catching glimpses of the forest while trying desperately to keep the trees from crashing in on him. You know the adage "When you're up to your ass in alligators, it is sometimes difficult to remember that your original objective was to drain the swamp."

The small businessman typically does not even consider export. He is having one heck of a time trying to make a go of his business domestically. It takes an unusually farsighted small businessman to see beyond his own borders in the first place. He has no marketing department to statistically profile world markets. He has no legislative specialists to look for government assistance. He has no time to even determine that the SBA is the right agency for him to contact instead of the Department of Commerce.

Perhaps this overstates the perspective difference, but I hope the point is made.

III. Where it all starts

The beginning of my company's export needs is identification of potential foreign customers. In the luggage business, which is a very small industry, Skyway is one of the most aggressive seekers of foreign markets. Even so, we have had virtually no assistance from the U.S. government in finding customers.

Example #1. Through a long time contact in Holland, I became aware of an association of luggage stores in Norway. The verbal message was that the name of the group was LERMO (my phonetic spelling of the verbal message). I immediately wrote to the commercial attache of the U.S. embassy in Oslo passing along the information, asking for contact to be made on my behalf, and perhaps a word or two paving the way for my follow-up. All I was really requesting was a phone call and for someone to drop me a note with a name, address and any information that might be useful.

I received a very prompt answer back from an embassy employee, with an obviously Norwegian surname, indicating that such an organization did not exist. Trusting this information, I forgot about pursuing the matter. After all, I was hearing from the horse's mouth, I assumed that my Dutch contact was mistaken, and I had too many more pressing matters to occupy my time.

III. (continued)

A year later, I ran into my Dutch friend who asked how I was doing in Norway, and I related the story. He was astounded, made a telephone call to Directory Assistance in Oslo and provided me with a name, address and phone number.

I wrote the company, found it did exist, and cursed the year I had lost.

Example #2. I visited the annual leathersgoods exposition in Madrid. I picked up the show directory which listed exhibitors. After touring the show, I went to the U.S. Embassy, and asked to speak to someone who could help me identify companies in Spain with whom I might establish a reciprocal relationship. They would be my distributor in Spain, I would be theirs in the U.S.

I was introduced to a Spanish citizen working for the commercial section. He provided me with a three year old government listing something like our SIC listing. It was obsolete.

I offered to come back or suggested that he forward information to me by mail, but he indicated that this was all that he had in his files.

I also needed to know something about the rate of duty and other possible restrictions to the importation of my products into Spain. He was unable to provide this information to me, and suggested that I get it from my customs broker.

I was in Madrid and my broker was in Seattle.

Example #3.

The above two are bad examples. This is a good one.

When the dollar was weak, favoring U.S. exports, we formed our own sales company in England. This was the easiest place for us to do so because of the commonality of language, culture and retail patterns.

The annual trade show in Birmingham, England is sold out years in advance. New companies wishing to exhibit must get on a waiting list and wait for years.

We approached the U.S. Embassy in London. One particularly zealous British citizen employed by the embassy went to bat for us with the organizers of the show. He was able to secure a booth for us, along with several other American companies. He ran an advertisement in the show magazine directing buyers to visit all the American booths and listed the same. He provided American flags and other display items. And to top it all off, when we arrived in Birmingham, we found him in our booth, broom in hand sweeping the floor.

The small business exporter in the U.S. typically knows his product, knows how to make it and can give a fairly good accounting of himself to a potential buyer. But with limited time, resources and local knowledge, he is totally dependent on others for identification of potential customers.

All the other problems of exporting are subsequent to customer identification. Only after you find someone who might buy do the problems of financing, documentation and regulation etc. come into effect.

Big companies do not need this. They can afford to hire teams of people to scour the countryside of a new market. Small businesses can look only to the local U.S. Embassy for help. We do not need someone to do the selling for us. That's our job. We do need someone to help us find whom to talk to. We are used to talking to twenty people in order to make one sale. We are not afraid of hard work. But we need some place to start.

IV. DISC

The one and only U.S. government weapon available to small business exporters is DISC. A small luggage shop owner in Basel, Switzerland is not going to use EXIM financing to buy \$10,000 worth of suitcases. No negotiator is going to tell the Taiwanese that we'll stop supporting their navy unless they stop financing luggage exports to the U.S.

V. What is needed - one company's view

- A. The assistance my company needs is not in the U.S. It is in the country of destination of our goods. We are thus led to believe this should be in the U.S. embassy.
 1. A motivated, well informed, commercially savvy staff who is willing to do a little digging to help find potential customers. Someone who could report back on specific information such as typical practices within the local industry, customs regulations, current market leaders, etc.
 2. An advocate on an ongoing basis. Not a week goes by that I don't receive a phone call from a trade promoted of some foreign government office. For example, KOTRA (Korean Trade Administration), the Brazilian people in Los Angeles, etc. These offices are constantly probing on behalf of exporters in their countries.
- B. There needs to be a recognition at all levels which deal with international trade that while small business may not have the deals with a lot of zeros at the end of the numbers, exports can play a role in the small business equal to that in the large business. The 85% or more of total U.S. companies that are small businesses may not individually be significant. But taken as a whole, increased exports by these firms can be beneficial to our trade balances. But encouraging exports by small business must take

V. B. (continued)

a form completely different from that applied to big business. It must recognize the basic nature of small business and include provisions that will work for small business as well as large companies.

- C. There needs to be an easy method for small business to get its needs known. Someone to whom an individual firm can give the ball and know he'll take it from there.
- D. An incentive for small business to attempt to export - recognizing that export development costs may be less efficient than costs of developing a domestic market. Perhaps a tax credit rather than simply a deduction for export development expenses.

VI. Conclusion

Small business people are entrepreneurial in spirit. They like to try new things, but they can only do so much. They have no staff to send off chasing rainbows. They have no one to delegate to but themselves. They are bright, but rarely have the time to devote to studying new situations in the depth they deserve. Virtually every action is a compromise between the ideal and the practical given limited resources. Far more than big business who can afford research and export development staffs, small business needs help. As taxpayers, it is reasonable to expect that some help should come from our government. It starts with a recognition of our particular kind of business, and it focuses first on helping us identify potential customers. The needs thereafter are well documented in the survey results.

LEWIS G. ZIRKLE

October 18, 1982

Brief History of
KEY TRONIC CORPORATION

Key Tronic Corporation was founded in October 1969, and has become the World's largest producer of electronic keyboards for the computer industry. Mr. Lewis G. Zirkle is the Founder and President of this privately held, non-union company.

Key Tronic Corporation prides itself in having the most sophisticated plastic mold making operation in the Northwest, a highly skilled work force and among many other things, an expertly trained electronic technical staff. Last year we shipped approximately 700,000 keyboards.

Starting in 1969 with 4 employees, in 1982 we now have some 1700 plus. With facilities at, or under negotiation, the following locations:

- Spokane Industrial Park - Corporate Headquarters & Manufacturing.
- Newport, Wa - Approximately 400 employees
- Cheney, Wa - Approximately 250 employees
- Korea - In final negotiations.
- Taiwan - Under negotiation.
- Singapore - Under negotiation.
- Europe - Under serious consideration

"EXPORTATION OPPORTUNITIES FOR SMALL BUSINESS."

All business opportunities can be divided into three categories:

1. Cost of Domestic production.
2. Market information on overseas markets.
3. Regulations and procedures unique to exported goods.

Item 1. Cost of Domestic production. These opportunities are the same for all businesses, large or small. It has become necessary for Key Tronic Corporation to move off-shore for manufacturing. The computer industry is going the same direction and for the same reasons. Computer hardware manufacturing is also going the same direction much the same as the radio and television industry did in the past.

The reasons in order of importance are:

- a. Cost of United States Government, including interest on working capital.
- b. Cost of material.
- c. Cost of human effort.
- d. Efficiency of human effort.

Item a. Cost of government and interest has been thoroughly covered and are subjects well known.

Item b. Cost of material and parts are from 15 to 50% lower for the same reasons as above.

Item c. Cost of Human Effort is much lower than in the United States. However, it is not the main reason for going off-shore.

Item d. Human effort is a definite factor. We at Key Tronic Corporation are very proud of our efficiency and because of this, it is not a factor in our case.

Item 2. Marketing information on overseas markets. It is very difficult for any of us - small or large - to obtain marketing information. Our best source at the present time, is personal contact and foreign offices of U.S. banks. It has been difficult to get help from our own government offices in foreign countries.

There are many ways to help small business in the marketing effort. I feel the most effective would be through trading companies who have been given proper incentives by the U. S. Government and private industry.

Item 3. Regulations and procedures unique to exported goods. This information is available through many sources such as: World Trade Association; U. S. Chamber of Commerce; U. S. Department of Commerce; State Department of Commerce and Bankers.

I feel financial subsidies to small businesses will only perpetuate the weak and financially burden the strong.

Senator GORTON. Now we will hear from a panel of people representing various levels of government: Mr. Clark, Mr. Notton, Mr. Silberstein, and Mr. Balatero.

While they are coming up and taking their places, as I said, I hope we will have time to listen to some comments from people who are here in the audience. I think we will have that time for at least some relatively brief statements. We are going to pass out a signup sheet right now. Those of you who have not testified, if any of you are interested in doing so in about 30 minutes, please put your name and your address on the signup sheet and I will call you in the order in which those names appear.

We will begin with Mr. Clark, who is the manager of the Office of Small Business, Washington State Department of Commerce and Economic Development.

Mr. Clark, we are pleased to have you with us.

STATEMENT OF DOUGLAS L. CLARK, MANAGER, OFFICE OF SMALL BUSINESS, WASHINGTON STATE DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT, OLYMPIA, WASH.

Mr. CLARK. Thank you, Senator.

I guess inasmuch as you have spent a few years in Olympia I do not need to say too much about the role of our department. Basically, we are responsible for the economic development here in the State. Of course, foreign trade is a large part of our State's economy and has been for a number of years because of our strategic location with Japan and the other countries around the Pacific rim.

I think it is worth mentioning that the value of the foreign trade through our local ports has increased from \$1 billion a year in the 1960's up to \$22 billion in 1981. Today, as you mentioned, one job in five here in the State is dependent upon foreign trade. Therefore, we do pay quite a bit of attention to that phase of our economic activity.

Many years ago the State legislature gave our department responsibility for promoting foreign trade here in the State and established the International Trade Division. That division is responsible for assisting any business in this State that is interested in importing or exporting. Of course, in these days we have deemphasized the import promotion and we are trying to emphasize the exporting.

They have assisted many hundreds of firms not only in learning the mechanics of international trade, but also in organizing the trade missions and trade shows in countries all over the world.

Our Governor and our director, Richard Schrock, just returned from the latest of these, a trade mission to China. I think they are very hopeful that we very soon will be able to start shipping Washington wheat and timber into China. These missions do have a real positive effect.

I think it is important to mention that opening trade to any country does require this kind of government-to-government contact. In other words, in a lot of countries around the world, the governments really do require a certain amount of this kind of activity before they even allow private industry to come in and begin to ne-

gotiate with companies in their country or, of course, in the case of China, the country is the business so we have to deal that way.

Then, in 1977, our State legislature also recognized the value of the small business community in our State and established the Office of Small Business that I head. During the past 5 years our office has assisted actually thousands of firms here in the State, persons getting started in business or firms that have had problems of some type or another, particularly involving some activity with the Government.

Speaking from this background of being familiar with these problems and concerns that our small businesses have, I can say with quite a bit of confidence that the report that you have put together is very well done. It really does begin to hit at the problems of exporting, but I notice that it really only covered those firms that had a particular interest in exporting. In other words, I think you tried to identify those firms in making the survey. If you tried to contact small business as a whole, I think you would find that a bigger problem far beyond any of those that were covered in your survey is that basically small businesses just were not interested in exporting. That is true even in this State where we are largely dependent upon foreign trade, but I am afraid that a high percentage of that is larger businesses that are enjoying the fruits of that particular activity.

Quite some time ago, our office recognized that this problem needs to be addressed if we ever are going to deal with this problem of having a \$35-billion-a-year deficit in our balance of trade. We have done a number of things to try to promote and encourage small businesses to get into that business.

The latest of these is a series of conferences that we are getting ready to have. I have given you copies of the brochure on that. We have contacted 45,000 firms here in the State that have at least a potential of a product or a service that could be exported. We are going to try to get them interested in coming and hearing a little different approach that we have tried in the past, to really promote the idea of getting into selling overseas.

We feel that the new Exporting Trading Act, which was just passed by Congress, really does open up a new avenue that we will be trying to promote during those conferences, too.

With that, there is just one other area which I think is worthwhile to mention. It has been mentioned that one of the problems is lack of understanding the language. In our State where we really want to zero in on Japan, I think we should be doing something to encourage our high schools and our colleges to teach Japanese, both the language and the culture, so that our students, as they come out into the business world, are able to go out and really handle the kind of direct selling activities that we really need to get into as we go into the future.

One other thing that I did not include in the material we presented is a separate report on how small businesses can increase employment in the State. I would hope that your committee would have a chance to look at that separate issue.

Thank you.

Senator GORTON. Thank you.

Mr. Silberstein, you are next.

STATEMENT OF ERIC C. SILBERSTEIN, AREA DIRECTOR, INTERNATIONAL TRADE ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE, SEATTLE, WASH.

Mr. SILBERSTEIN. This State needs trade to live, and there are a lot of numbers thrown around. Let me pick some numbers which I think would be useful to you.

In the manufacturing sector, 6 out of 10 jobs in the State are direct export-related jobs. Therefore, the health of the export markets for products made here in the State of Washington is directly related to the economic and financial health and well-being of the citizens of the State.

Second, there are about 9,000 manufacturers of products in the State of Washington. We called every one of them. We brought together college interns and developed a questionnaire in conjunction with the State department of agriculture and the Washington Council of International Trade as well as the Small Business Administration. We called every last one of those producers and discovered that there are about 1,400 of them that are interested in exporting or are presently exporting.

In terms of company size, those companies that are 1 to 50 employees in size amount to 908 companies. We are now communicating on behalf of ourselves and other agencies, State and Federal agencies, with each of those 908 companies. There are 198 companies in the 50-to-99-employee size range. Each of them is being contacted with trade leads, trade show opportunities, advisories or regulations, letters going out about the passage of the export trading company legislation and the conference which will be held on that in January.

There are 185 firms in the 100-to-249-employee size range that have expressed an interest in exporting or that are exporting.

In the 250-to-1,000-employee company range there are 89 companies, and over 1,000 employees, there are 31 companies.

In terms of the small business definition, therefore, there are 92 percent of our manufacturing client companies that have expressed an interest in exporting or that are exporting and which have under 250 employees. The lion's share of our services are directed to those companies.

We have read with interest the committee's survey. I find that I do not have much disagreement with the top four categories of concern, but I have some concern that we interpret what lack of information means and that we interpret the issues of finance that came from the survey.

It is interesting to note that none of the examples given in the survey are from Washington State. We have, in fact, prepared a survey which will go out next week of Washington State firms about our services and others. I would be delighted to give those to the committee when they are finished.

With regard to lack of information, there is a lot of information out there. We have information on 150,000 or more potential buyers around the world as well as agents, distributors, and market information. The information is all over the world and in Washington, D.C. Some of it is easily accessible from our office or

our headquarters in Washington, D.C., or our embassies. Some of it is not accessible by anyone but should be made available.

I think the issue is not that there are not people gathering information in the State government and the Federal Government and the private sector but it is not well coordinated; it is not brought together. I agree with comments which have reflected that.

A lot of the other problem about lack of information is lack of knowledge about the information that does exist and is available. We come across this often. One of the positive outcomes of hearings such as this is that it will bring to the attention of the business community the tremendous amount of information out there which they are not yet taking advantage of.

Second, on the finance issue, the International Trade Administration and the Economic Development Administration, Department of Commerce, funded a study last year that was performed by the Economic Development Council of Puget Sound as a grantee. We discovered that one of the obstacles mentioned in the committee report, the lack of export finance, has some interesting edges to it.

One of them is that companies feel that financing is available; it just is not as available to smaller companies at a rate of interest that is competitive, that makes them competitive. When they have to finance their overseas customers, they borrow money on behalf of that overseas customer at a rate that is above prime, in many cases far above prime and far above the rate that is supplied to their larger domestic competitors. Somehow that interest differential rate has to be diminished in order for small businesses to be competitive.

Second, the banks that were surveyed in that study found that they would give far more loans to small businesses if those small businesses were better informed on how to export and the intricacies of export finance.

We are working with private organizations and trade associations to increase, as you will probably see in the work plan that is submitted for the record, companies' knowledge about export financing so that banks will be more confident to lend money to smaller exporters.

There are cases where there is Government interference in export financing, predatory financing practices, which you are well aware of. In some cases small companies come up against that either directly when competing against foreign competition or when they are supplying as subcontractors to the larger companies in this area that are very much devastated by predatory financing, on the part of Europeans in particular.

Thank you.

Senator GORTON. Thank you.

Mr. Notton?

**STATEMENT OF PHILLIP A NOTTON, REGIONAL MANAGER,
INLAND EMPIRE OFFICE, PORT OF SEATTLE**

Mr. NOTTON. Thank you, Senator.

I am the regional manager of the Inland Empire Office of the Port of Seattle. My office and place of business are located at 928 Old National Bank Building here in Spokane.

For the past 22 years it has been my responsibility to solicit export-import business via the Seattle Gateway from and to points in eastern Washington, Idaho, Montana, eastern Oregon, and North and South Dakota. In performing this function, I deal directly with most elements of the shipping industry, including suppliers, exporters, truckers, rail companies, freight forwarders, and steamship carriers. Many of my contacts are with small businesses which export. Through these contacts I have become aware of concerns and complaints relative to their export sales in overseas markets.

In my opinion the major obstacles faced by U.S. exporters trying to do business overseas are problems related to: One, lack of information; two, regulations; and, three, financing.

With regard to the lack of information problem, it is essential to the U.S. exporter that he have access to lists that clearly identify potential foreign customers and agents, together with a specific commodity in which they deal.

The second problem relates to regulations. The paperwork connected with complying with domestic regulations and foreign regulations discourages many people from exporting. Foreign government regulations in the form of restrictions placed on the importation of U.S. farm products is a continuing problem for exporters. Usually these restrictions are motivated by the country's protectionist policy.

In regard to financing, I hear two major complaints. The first deals with delays in receiving letters of credit. When a letter of credit is delayed, many times the U.S. seller does not have enough time to fulfill the letter of credit's requirements before its expiration date.

The second complaint is connected with delays in receiving payment after the fulfillment of the terms of the letter of credit. Shippers have indicated to me that the payment delays occur most frequently when New York banks are involved in the transaction.

In answer to the question, what else can the Government do to stimulate exporting by small businesses, one suggestion is that the Government provide tax incentives and low-interest loans directed at small businesses. DISC, the Domestic International Sales Corporation, has worked reasonably well with the large multinational firms but has done very little, if anything, to benefit the small businesses.

In addition, the Government could improve both its gathering and dissemination of information on foreign markets. It could be more responsive to foreign government restrictions placed upon U.S. products. It could assist in simplifying export regulations, and it could require the banking system to adhere to an expeditious procedure in the transmittal of funds that are due upon presentation of documents.

Thank you.

Senator GORTON. Thank you very much.

Mr. Balatero?

STATEMENT OF PRUDENCIO D. BALATERO, REGIONAL EXPORT DEVELOPMENT SPECIALIST, U.S. SMALL BUSINESS ADMINISTRATION, SEATTLE, WASH.

Mr. BALATERO. Thank you, Senator Gorton.

I am pleased to appear before you today to discuss the U.S. Small Business Administration's International Trade Program for the Small Business Administration in region X. The Pacific Northwest States of Alaska, Idaho, Oregon, and Washington comprise this region, region X.

Our Administrator, SBA Administrator Sanders, and Regional Administrator Hall firmly believe that international trade is a priority for SBA. Our regional management plans and district operating plans clearly outline objectives and actions supporting an international trade program.

Our basic program aims are to identify, motivate, inform, and assist potential and current small business exporters to export or to increase their exports. I believe various local export assistance resources working together can and will accomplish these aims. This has been our approach: Leverage our efforts with public and private sector support.

In reference to the survey recently published of finding on Obstacles to Exporting Faced by Small Businesses, published by the Senate committee—it has been my experience in the 22 months I have been in this position as regional export development specialist that your findings are quite correct.

There is a great need for small business people to obtain up-to-date and relevant export information. Unfortunately, too many business persons do not know how to go about it. As Mr. Silberstein mentioned, hearings such as this—that type of publicity—perhaps will get to the business person so that he or she becomes aware of such information.

Therefore, in our region we have an outreach program whereby we initiate contact with small businesses through our SCORE volunteers, our Senior Corps of Retired Executives with international trade backgrounds. There are presently 27 SCORE foreign trade counselors in region X participating in our export development program.

Theoretically this is an advantage to the agency inasmuch as it has no volunteer personnel ceiling, as we do with our career employees. The SCORE member volunteering his or her expertise in foreign trade makes this one of our major resources to assist small businesses in our international trade program.

At this point I would like to point out one example of the survey submitted on successes that SCORE has accomplished in their assistance to small businesses.

Last December a SCORE volunteer and I visited a manufacturer of specialty farm machinery. We met with the president of this firm and his general manager. Although the product had been accepted domestically and appeared to be of high quality and marketable after some 7 years of their development, the firm was near bankruptcy. With their heavy debt and curtailed sales, we estimated that the business would stop operations within 90 days. Bankers were not interested in loaning them additional money.

Probably in hindsight or retrospect our most important advice to them was to locate an export management company that specialized in farm machinery. The firm took this advice. They researched and found their export management company. Within 4 weeks the export management company acquired a half million dollars in sales orders to South America for them. Instead of closing their doors, the firm had to hire 35 additional persons in this depressed area.

A willing banker loaned them working capital based upon these export orders. Sometime later a followup visit by our SCORE volunteer was made, and he learned that an additional \$1 million in export sales had occurred through their export management company. About 2 weeks ago the same SCORE volunteer again made a followup call and learned that the firm is expecting additional export sales orders for \$3 million to Saudi Arabia and Iraq.

Just recently our region's first export revolving line of credit guaranteed a loan for half a million dollars to a woman-owned lumber mill. Although the firm had solid orders from Japan for metric-cut lumber, it was unable to borrow the necessary working capital. SBA's guarantee of 90 percent of the loan with a participating bank finally overcame this financial obstacle.

The mill is in a high unemployment county. It is projected that these export orders will necessitate the company's adding a second and third shift operation. The employment for the firm and its log supplier will increase by 250 persons. Total cash flow through the firm, because of the SBA guaranteed line of credit, over an 18-month period is expected to be \$4.5 million.

I wish to now discuss one of the obstacles found in exporting. Recently, an international tax expert, who is located in Washington, D.C., addressed a world trade club on the disadvantages to U.S. exporters that certain taxes imposed. Of the tax laws at first view appear neutral; that is, appear to be neither an advantage or disadvantage to the U.S. exporter. However, closer examination reveals possible disadvantages. The message of this tax expert is that some U.S. tax laws should be thoroughly examined to answer the following question: Are the overall taxation results what the Government wants?

I respectfully suggest that this committee explore the tax area with the Counsel of International Tax Experts.

As far as obstacles, I am in agreement with Mr. Doug Clark's comment about education. Positive Government actions should take place in our public school's curriculum to encourage the inclusion of subject matters that educate and prepare our future entrepreneurs for domestic and international trade endeavors. These efforts should occur at the lowest grade level practical. For example, I am not aware of Japanese or Chinese language courses being offered in our grade schools or high schools in the Pacific Northwest region.

Also, there should be emphasis on the importance of international trade, which could be included in existing appropriate courses.

That ends my discussion at this point.

Thank you.

Senator GORTON. Thank you.

Mr. Balatero and Mr. Silberstein, both of you were here, I think, at the time of the first panel. Each of you has emphasized what many of the private industry witnesses have, the need for information. Each of you has an agency which has a great deal of that information.

Could you address the question as to how you relate to one another as Federal agencies? What kind of relationship is there between the Department of Commerce and SBA here in the State on a working level, when small business really does not know what it is looking for and just comes into the first Government office it sees?

Mr. BALATERO. Today in Seattle an export conference is being given for small businesses. Part of the agenda is that we have foreign consulates advising small businesses in the morning. By the way, our SCORE volunteers put this together. In the afternoon an ITA person from Mr. Silberstein's office will be addressing that group. That is an example of cooperation.

Mr. SILBERSTEIN. Senator, exporting and export policies and practices are very difficult and complex. We hear that said many times. In the Federal Government there are at least 16 or 18 agencies that directly relate to or have an impact on export transactions. There are probably many committees and subcommittees overseeing export policies and programs in the House and the Senate. Coordination is very difficult.

I think that each has a desire to do something useful. The Small Business Administration's primary task is to finance, provide financial assistance and support for small businesses to help them become more competitive. They have added an emphasis on international counseling, so that their clients who receive management assistance from the Small Business Administration are made aware that international trade is part of, or should be part of, the marketing plan for people who provide products and services that are exportable.

Primarily, the Small Business Administration recommends that those clients participate in Commerce Department programs and other private sector services and facilities. The personnel whom they use to visit companies and to make these recommendations are SCORE volunteers for the most part.

In this State, as of a few months ago, the Small Business Administration has been able to get seven SCORE volunteers—

Mr. BALATERO. In this State, including Spokane and Seattle, about 15 SCORE volunteers are available to provide assistance to small business.

Mr. SILBERSTEIN. Those are SCORE volunteers who spend a limited amount of time working on SBA programs in this international field with small companies. When they had seven volunteers, they were able to provide less than one man-year's worth of work. Such a limited resource is rarely effective and difficult to mobilize on behalf of companies. They have been providing some referrals.

They have had a lot of difficulty making the finance programs match the needs of State exporters. To the extent that they have revamped that program, we hope that the SBA's second effort will help. The problem with SBA's finance program in the past has been that it did not finance transactions; it provided operating capital. They are two very different transactions.

We have offered to have SCORE volunteers work in our office managing our interns and working on company export opportunities. It takes intensive care of those companies at the right time. You cannot have a part-time individual providing assistance on Monday, and when cable traffic comes in on Wednesday and that person does not come in until 2 weeks later, you cannot have a small business dependent upon that individual for their help.

We have tried to resolve this problem. I think that the only way to do this is a suggestion that has been made by Mr. Balatero and Steve Hall, their regional director. They recognize the problem, and the SCORE volunteers recognize the problem. They have mentioned it frequently.

Through a grant, they are trying to have a fulltime trade specialist through the small business development center here in the east side of the State help us with some of that intern coordination in Seattle. Although we may ask them to help initially get our office here in Spokane off the ground, which I hope will help Mr. Swanson. You need full-time assistance. It is not part-time work. That is the problem with our coordination.

Senator GORTON. Mr. Clark, this question may be a little embarrassing. I would like your views as to how much impact there is on actual exports and foreign trade by the rather highly publicized trips overseas by the Governor and by various State officials. Can you see tangible results stemming from that kind of visit?

Mr. CLARK. As I say, the trip to China, of course, has not had a chance to bear fruit yet. However, some of the other trips that have been made, particularly trade missions for specific industries that we have had to Australia, New Zealand, the Philippines, and places such as that, where we take in a group of businesses that represent the forest products equipment industry or that sort of thing, those have been quite productive in generating sales for the people who have gone on those trips.

Senator GORTON. Again, I would like to thank this panel for a great deal of help to us.

Mr. Notton, I can say to you that it is remarkable how closely your survey parallels the one that we came out with in August as to what the nature of these problems are. It simply confirms the kind of information that we are getting.

Thank you very, very much.

[The prepared statements of Mr. Clark, Mr. Notton, Mr. Silberstein, and Mr. Balatero follow:]

Statement by:

Doug Clark, Manager
Office of Small Business
Department of Commerce and
Economic Development
101 General Administration Bldg.
Olympia, WA 98504

TESTIMONY BEFORE THE SENATE SMALL BUSINESS COMMITTEE
SPOKANE FIELD HEARING
Obstacles to Exporting Faced by Small Business
October 21, 1982

I have been asked to testify on two basic questions: "What major obstacles do we face in exporting?" and "What can or should government do to stimulate exporting?"

Before I answer these questions, let me take a minute to explain what the role of our agency is. Basically, the Department of Commerce and Economic Development is responsible for promoting the economic growth of the state of Washington and the economic well-being of our citizens.

Foreign trade has become an increasingly important part of our state economy due to our strategic location with Japan and other nations on the Pacific Rim. The basic value of foreign trade moving through our local ports has mushroomed from about \$1 billion per year in the 1960s to over \$22 billion in 1981. Today, one job in five in this state is dependent on foreign trade.

Many years ago, our Legislature recognized the importance that foreign trade should have to the state and established within our department an International Trade Division. This division was given the responsibility to assist any business in this state interested in importing or exporting any product or service. That division has assisted many hundreds of firms not only in learning the mechanics of international trade but also in organizing many trade missions and trade shows to countries all over the world. Governor Spellman and our Director, Richard Schrock, have just returned from the most recent of these--a trade mission to China. There have been several of these now, and it appears we may finally have opened the gates to allow substantial quantities of Washington wheat and timber to start flowing into China.

Opening trade to many countries frequently requires this kind of government-to-government negotiations before private industry can even begin to operate. Our department plays an important role in laying the groundwork for these negotiations. Of course we, in turn, rely on the assistance of the U. S. ambassadors and commercial consulates in the countries involved.

In 1977 our state Legislature also recognized the value of small business to our economy and established the Office of Small Business, which I head. During the past five years, our office has assisted thousands of persons getting started in business or needing help with problems they have encountered in staying in business.

Speaking from this background of being intimately familiar with the problems and concerns of the small businesses in this state, I can say there is a deeper problem than what is shown in your "Survey of Findings on Obstacles to Exporting Faced by Small Business". It indicates in Table 1, page 7, that 20 percent of your respondents point to a lack of information as an obstacle. Your survey covered only firms with an expressed interest in exporting. If you surveyed the small business community as a whole, I am sure you would find many more who would simply reply, "not interested."

Even here, in this state, where 20 percent of the jobs are foreign-trade dependent, only a relative handful of small businesses are engaged in foreign trade. The vast majority of our small businesses have just never thought of doing business beyond our shores.

Our office has long recognized that this state of affairs must be changed if we ever hope to do anything about the \$35 billion per year deficit in our balance of trade we have been running for nearly ten years.

In March of 1979 we planted the seed for the idea of copying the highly successful Japanese trading companies by allowing small business to band together to form American trading companies during the Seattle conference leading to the White House Conference on Small Business.

Few small business owners were interested or knowledgeable enough to recognize the importance of that concept, so it did not receive much attention from the delegates. However, the White House staff became very interested in the idea. Within a few months, legislation was introduced that eventually led to passage of the Export Trading Act just a few weeks ago (HR 1799).

With this new legislation in place, our office is now preparing a major campaign to interest our small business community in exporting. Nearly 45,000 businesses in Washington State have been identified as having a product or service with at least some potential for export. All of these are being notified of a series of conferences to be held in five cities across the

state starting November 15 and ending November 22. These will be specifically focusing on selling in Japan, because we believe it to be our best opportunity for expanding exports in the near future. They have accumulated many billions of U. S. dollars from years of favorable trade balances with us. We will be talking about forming at least one export trading company for Washington businesses at these conferences.

This is only the first step. We must get our high schools and colleges in this state to make a concerted effort to teach Japanese (both the language and the culture) to students interested in pursuing business careers. This will provide a long-term basis for cultivating the Japanese market on its own territory. Ever since World War II, we have forced the Japanese to deal with us in English. Their sales people have learned our language well, but now the shoe is on the other foot. To sell to the average Japanese consumer, we need to speak their language.

That is about all I have to say about our foreign trade activities. However, I couldn't pass up this opportunity to give the Select Committee on Small Business a copy of a report we just presented to the Employment Futures for Washington's People Conference, "How to Increase Employment by Helping Small Business". While it covers primarily our problems in this state, you will note a number of suggestions that would need action by Congress. I appreciate this opportunity to give you this information and will be pleased to answer any questions you might have.

STATEMENT BY:

PHILLIP A. NOTTON, REGIONAL MANAGER OF INLAND EMPIRE OFFICE, PORT OF SEATTLE
BEFORE SENATE SMALL BUSINESS COMMITTEE
(OCTOBER 21, 1982, SPOKANE, WASHINGTON)

"Obstacles to Exporting Faced by Small Businesses"

My name is Phillip Notton. I am Regional Manager of the Inland Empire Office of the Port of Seattle. My office and place of business are located at 928 Old National Bank Building in Spokane, Washington. For the past 22 years it has been my responsibility to solicit export/import business via the Seattle Gateway from and to points in Eastern Washington, Idaho, Montana, Eastern Oregon, North and South Dakota. In performing this function, I deal directly with most elements of the shipping industry, including suppliers, exporters, truckers, rail companies, freight forwarders and the steamship carriers. Many of my contacts are with small businesses which export. Through these contacts I have become aware of concerns and complaints relative to their export sales in overseas markets.

In my opinion, the three major obstacles faced by U.S. exporters trying to do business overseas are problems related to: (1) lack of information; (2) regulations; and (3) financing. Let me elaborate on each of these problems. The lack of current, reliable information appears to be the major deterrent to firms trying to make new sales in overseas markets. The export briefs such as TOPS that are published by governmental agencies have been criticized as being out-of-date or inadequate. It is essential to the U.S. exporter that he have access to lists which clearly identify potential foreign customers and agents together with the specific commodities in which they deal.

The second problem I observe has to do with regulations. Foreign and domestic regulations and their attendant paperwork discourage many people from exporting. Among documents necessary to export are: a Letter of Credit, Commercial Invoice, Consular Invoice, Certificate of Origin, Export License, Ocean Bill of Lading, and Shipper's Export Declaration. Add to this list the complexities of packaging and marking an export shipment for transport and you have a formidable array of requirements that must be completed in order to comply with the terms of sale. Despite their number and complexity, each document has to be prepared and executed correctly. Not doing so can result in payment delays, penalties or even cancellation of a sale.

Foreign government regulations in the form of restrictions placed on the importation of U.S. farm products is a continuing problem for exporters. Usually these restrictions are motivated by a country's protectionist policy. Import restrictions placed against U.S. agricultural goods can be accepted when there is a legitimate concern on the part of a foreign country about plant disease or insect infestation. Unfortunately, some restrictions are for other reasons. For example, the U.S. lentil industry is currently facing a limitation on the importing of lentils by the government of Spain which passed a regulation prohibiting imports of lentils below 6 millimeters in size. This will exclude

approximately 85% of U.S. lentils from the Spanish market. It is suspected that Spain did this to foster and protect its lentil industry. A complaint made by the exporters and agricultural groups affected by these restrictions is that the U.S. government is not responsive enough in working with the respective commodity groups to resolve these problems when they occur.

Finally, in regard to financing, I hear two major complaints. The first deals with delays in receiving Letters of Credit. If they are delayed, by the time the Letter of Credit arrives in the U.S. there is insufficient time left for the seller to fulfill his requirements. The second complaint is connected with delays in receiving payment and the transmittal of funds after fulfilling the terms of the Letter of Credit. Shippers report that delays in transmittals of funds occur more often when dealing with New York banks. Some of them have termed these delays as deliberate. These delays may result from either inattention on the part of the bank, or from a deliberate short-term use of the funds by the banks for their own benefit.

A recent development at the federal level which begins to address some of the problems facing small businesses is the Export Trading Company Act. As a government agency with a responsibility to exporting businesses, the Port of Seattle is working at the regional level to assist businesses in realizing the potentials of this new Act.

In answer to the question, "What else can the government do to stimulate exporting by small business?," one suggestion is that the government provide tax incentives and low interest loans directed at small businesses. DISC, the Domestic International Sales Corporation, has worked reasonably well for the large, multinational firms but has done very little, if anything, to benefit the small businesses. In addition, the government could improve both its gathering and its dissemination of information on foreign markets; it could be more responsive to foreign government restrictions placed upon U.S. products; it could assist in simplifying export regulations; and it could require the banking system to adhere to an expeditious procedure in the transmittal of funds that are due upon presentation of documents.

STATEMENT OF ERIC C. SILBERSTEIN
DIRECTOR
INTERNATIONAL TRADE ADMINISTRATION
COMMERCIAL SERVICE OFFICE IN SEATTLE, WASHINGTON

TESTIMONY BEFORE THE SENATE SMALL BUSINESS COMMITTEE
FIELD HEARING ON OBSTACLES TO EXPORTING FACED BY SMALL BUSINESSES

OCTOBER 21, 1982

Mr. Chairman and Members of the Committee Field Hearing on Obstacles to Exporting Faced by Small Businesses of the Senate Small Business Committee, I am Eric C. Silberstein, Director of the Department of Commerce, United States Foreign and Commercial Service Office in Seattle. I am pleased to speak with you about what we in our office and our parent organization in the Department, the International Trade Administration, are doing to encourage greater participation by small business in exporting.

The topic of the committee's hearing is of great importance to our nation's economy and to the United States efforts to increase international trade. According to President Reagan's 1982 report on the State of Small Business, small firms accounted for more than 86 percent of new jobs from 1969 to 1976. The important role of small business in our nation's economic growth must be recognized.

Similarly, the role of small business in expanding United States exports and improving our international trade posture is increasing and must also be recognized. The Department of Commerce estimates nearly 20,000 small firms are not exporting that could be doing so profitably. The Reagan Administration is troubled by this. This puts us at a serious disadvantage vis-a-vis our foreign trading competitors whose small and medium-sized companies are much more involved in foreign trade.

Since each one billion dollars in exports represents about 31,000 United States jobs, it's easy to see what even a small increase in exports could mean to our economy. A 10 percent increase in last

year's exports of manufactured goods would have been \$15.4 billion, almost half of the 1981 trade deficit, and we would have created almost 500,000 new jobs. Small firms, however, tend to regard selling overseas as a riddle and are not prepared to undertake the additional costs and risks.

The Department of Commerce has programs to overcome some of these inhibitions and make it possible for more small businesses to go into exporting. My particular area within the International Trade Administration has developed an export development management plan for Washington exporters using these programs and other tailored approaches. A copy of this plan is submitted with this testimony for the record.

We realize that small businesses need assistance to determine how to begin an export program, what markets to enter, and where to go to find assistance. We have published a very useful tool to provide a step by step approach to exporting for United States small business firms called A Basic Guide for Exporting. The Basic Guide describes in common business language what is needed to establish profitable export trade and where and how to receive assistance, both private sector and government. Since December 1981, we have distributed some 18,000 copies of the Basic Guide and the Government Printing Office has sold an additional 12,500 copies. Almost 86% of the Basic Guides are used by small and medium sized firms.

Information Services

A variety of export information products and services are available to assist the United States business community in its efforts to export. These services are designed to respond to the expressed needs of small, medium and large United States firms that are interested in penetrating and developing overseas markets:

- ° Detailed information about individual foreign customers and agents;
- ° Lists that identify prospective agents, distributors and buyers;
- ° Specific export leads; and
- ° Research studies enabling United States companies to assess the marketability of United States products in specific foreign countries.

World Trader Data Reports are individual reports on foreign firms, available by subscription for \$40 per year. They describe commercial activity, management, credit experience, commercial standing, size and reputation. The overseas posts of ITA's Commercial Services prepare the reports at the request of United States firms.

Export Contact Lists are produced from a database of over 140,000 foreign firms prepared by the Foreign Commercial Service (\$15 per customer plus 12 cents per name on the list). The lists are available in two forms: 1.) Export Mailing Lists, and 2.) Trade Lists. Export Mailing Lists are specialized lists tailored to the marketing needs of the United States exporter in terms of country, product and type of contact/firm of interest such as buyer, agent or distributor.

The Agent Distributor Service assists United States firms in locating agents and distributors abroad for a cost of \$90 per market. Firms provide sales literature and catalogs which Commercial Service officers use to identify up to six foreign firms who are interested and qualified to represent the United States firm's product.

Trade Opportunities Program delivers approximately 18,000 current, specific export opportunities to subscribing United States firms each year. The leads include foreign government calls for bids, representation offers from private foreign firms, and direct sale opportunities to private foreign firms. The information is available via the TOP Notice Service (\$37.50 for 50 leads plus \$25 initial set up fee) and the weekly TOP Bulletin (\$100/yr.).

New Product Information Service offers innovators of new products the chance to advertise in United States embassy commercial newsletters worldwide for a cost of \$25. Firms provide references, photos and literature describing their new product. The material is then translated into host country languages and delivered to embassy commercial contacts. Selected products are also advertised on Voice of America Radio.

International Market Research (IMR) services are provided to assist exporters and potential exporters in selected United States industry sectors, and others having a need for and interest in overseas marketing information. IMR services include market reports prepared overseas by private firms under contract to ITA or by FCS posts and are based on research specifications prepared by ITA. These reports are currently distributed free or are provided at a nominal charge through the National Technical Information Service.

In addition to providing these services directly to United States firms, much of this information is made available to state-level development agencies and to private-sector information vendors. For example, the Trade Opportunities Program provides a weekly and a bi-weekly tape service to a number of states that have systems to disseminate trade leads direct to companies in those states; both the Trade Opportunities Program and the Export Contact List Service provide computer tape services to firms such as Lockheed DIALOG,

which make the information available to their customers. We estimate that from 20,000 to 25,000 United States firms receive ITA-generated information through these state-level and private-sector sources.

Small Business Utilization

Approximately 60% of the over 20,000 United States companies that obtain these services directly from ITA have fewer than 100 employees. Both in developing these export information products and services and in setting user fees for them, we are particularly mindful of the needs of the small company.

The International Trade Administration is striving to more effectively meet United States companies' needs for export information. In recent months, we have taken several important steps to increase United States companies' awareness of and access to export information and services:

The Automated Information Transfer System (AITS) is being implemented rapidly. By the end of this year, we will have sophisticated computer equipment installed in 36 District Offices and 37 Foreign Commercial posts overseas.

Telex equipment has also been installed in all ITA locations for direct communications here and abroad. When fully developed by the end of 1983, and expanded to about 120 offices and posts, this system will increase ITA's timeliness and productivity in processing and communicating information. AITS will greatly enhance United States companies' access to export information. In addition to facilitating access to the information and services, AITS will also link to private-sector export-related data services. Continued enhancement of machine capabilities over the coming year will introduce new efficiencies into the delivery system not now possible and will permit more and new information products to be computer generated on a more timely basis.

These measures are just the beginnings of a new, greater commitment in meeting United States firms' needs for export information.

Export Promotion Activities

A number of overseas promotion activities are available to assist small businesses to establish themselves in foreign markets:

We also sponsor Industry-Organized, Government-Approved Trade Missions. These are groups of business executives organized and led by non-Federal Government organizations such as trade associations, state development agencies, chambers of commerce and similar groups. We sponsor about 6 state organized Trade Missions a year. The Commerce Department provides assistance in mission preparations and support by our overseas posts.

One example of export promotion activities designed specifically to aid small businesses to obtain market exposure and develop contacts overseas at a minimal costs are the Catalog Exhibition and Video Catalog Exhibition Programs. Requiring no expenditure of time or money by a company marketing executive, a firm that has no expertise in exporting can investigate the market for its products in one or more countries at low cost. Thousands of United States firms, 85-90 percent of which are small, have taken advantage of this program to gain their initial exposure in an overseas market.

The Commercial Services

A new streamlined management structure is one of the tools we have put in place to improve customer service to exporting small businessmen. For improved administration and management we have combined the United States District Offices located in 47 major cities with the overseas posts in 66 countries where United States international and economic interest are of major importance.

They now operate under central management which reports direct to the Under Secretary for International Trade. We feel this will produce economies of scale, improve services to our customers, and contribute to our export expansion efforts.

We have placed a new emphasis on identifying trade opportunities targeted specifically to small businesses, and directed toward increasing the number of small and medium-size businesses to export. The goal for our district offices this year is to increase by 900 the number of new-to-export firms, and to increase by 2,700 the number of new-to-market exporters.

What kind of results have we seen?

By the end of June 1982, we reported nationally 767 new-to-export firms had completed sales of \$196.6 million, and a total of 1,452 new-to-market exporters reporting sales exceeding \$919.5 million. This represents well over \$1 billion in sales and about 35,000 jobs in the United States.

To make our United States field offices and foreign commercial posts more effective and attuned to changes in the marketplace, we have redirected their efforts so 60 percent of their time is spent servicing small exporting firms. And we have also redirected the emphasis of our recruiting efforts for foreign commercial officers to recruit candidates with private business sector experience... strong candidates who have everyday experience in international business.

More than half of those candidates offered career appointments last year originated in the private sector, and we expect that proportion to be even higher in FY 83. In fact, we have been very pleased with the caliber of applicants competing for these positions and feel our rigorous assessment and testing process contributed to that.

There are other areas in which we have expanded and intensified our efforts to counsel small business exporters. For instance:

- o USFCS is working in all 50 states with multipliers such as the District Export Councils comprised of over 1700 members, state economic and business development agencies, chambers of commerce, and universities, to encourage the development of specific export goals on a state-by-state basis. As a case in point, USFCS is starting a special Federal/State liaison pilot project to place some 20 individuals in selected states. They will work in concert with the District Offices to intensify efforts to develop and implement a specific export marketing strategy on the state level. This effort is intended to reduce duplication of Federal effort and make states more effective at producing a program tailored to the peculiarities of each state, (such as dominance of a specific industry or abundance of natural resource). Work with the states, always has been part of the District Offices' mandate, but we feel that this extra effort will go far to help small firms realize their export potential.

- o To encourage and instruct small- and medium-size business owners, USFCS has held 1,549 "basic export marketing" seminars in non-metropolitan areas of the country (cities of fewer than 50,000 population). These seminars were conducted from October 1981 through June 1982 and were attended by almost 50,000 participants. In major metropolitan areas, 2,800 conferences or seminars or workshops have been held for more than 141,000 persons. ITA's export seminar program emphasizes topical and current themes important to the small business community. USFCS plans to hold 45 seminars on the Export Trading Company legislation, with projected attendance of 6,000 people. Similarly, the District Offices have recently placed emphasis on informing firms of all sizes of new opportunities resulting from relaxation of duties and certain non-tariff trade barriers obtained through the Multilateral Trade Negotiations.
- o To assist small- and medium-size businesses sell their products and services to the Federal Government, 20 Congressionally-sponsored "Federal Procurement Conferences" have been held this year. They attracted some 7,500 persons associated with small business. Of these, 2,870 participated in concurrent export seminars. To reach a still greater number of United States companies and to inform them of opportunities in selling to the Federal Government, 30 Business Development Conferences are being planned in FY 1983 for expected audiences of five-to-six thousand persons.

- o A new initiative will involve retired persons in our promotion and counseling activities. In FY 1983, ITA will begin a program of soliciting voluntary assistance from retired executives with international business experience. These valuable people will expand our professional resources by enabling ITA District Offices to counsel more small firms and deliver ITA programs more effectively.

By the end of 1983, we hope to have retired executives associated with all our District Offices and some FCS posts abroad. As with retired persons serving with the Service Corps of Retired Executives (SCORE), the International Executive Service Corps (IESC), and similar organizations, those assisting our efforts will serve without compensation, but will be entitled to reimbursement for expenses incurred in service.

In reference to "multiplier" organizations, I mentioned our District Export Councils (DEC's). They deserve special note here in this context of assistance to small business. I say this because most of the 1,700 District Export Council members are persons who own or in one way or another are involved with small businesses. Many DEC members have become role-model exporters and as such are instrumental in encouraging and guiding other small export-capable companies in their communities. The DEC's are a fine example of what private sector involvement with the Federal trade promotion effort can mean, not to mention involvement of the states and academia

through the same mechanism. During these first two years of the new Foreign Commercial Service, DEC members have been most helpful in suggesting high quality candidates for the FCS from the private sector.

Export Financing

Your report shows that financing is one of the key concerns among small businesses and their efforts to export. Our own survey taken of the District Export Councils confirm your findings that lack of competitive export financing is a major disincentive to increased exports. More must be done to assist the financing of small business exports.

The Cabinet Council on Commerce and Trade has recognized the perception in the business community that there is an inadequate supply of export financing, and that much of what is available is not competitive in the export marketplace. As a result, the Cabinet Council has directed an interagency working group to prepare a report to focus on public and private sector export finance proposals on such issues as private sector export financing cooperatives and state government export finance facilities, that could complement existing United States official export financing programs. The interagency working group, which includes Commerce, will be offering recommendations to the CCCT by mid-November for improving United States export financing capabilities. Some of the export financing proposals we are currently investigating include ways to improve the

supply of credit for small and medium-sized exporters, improving the marketability of export paper, implementing state programs for export financing, and export financing cooperatives.

Smaller exporters have special problems in securing adequate access to credit. They usually are dependent on commercial bank credit lines, against which their personal and business assets are pledged. They rarely can raise funds from such sources as commercial paper or captive finance companies. Financial techniques such as acceptances, discounting of drafts, and FCIA credit insurance, while helpful, do not expand access to financing because they create a contingent liability against the smaller exporter's existing credit line. In particular, smaller exporters need to bridge the interval between outlays for labor and materials, and receipt of final payment for their sales. In international trade, these repayment terms can typically stretch out to 180 days--which is substantially longer than the 30 days customary in domestic trade. Thus, as part of our report to the CCCT, we will be recommending ways in which smaller exporters can secure access to credit for export purposes.

There may also be ways to improve existing financial instruments or create new ones. Notwithstanding the credit instruments already in use, more can be done to enable companies to place their export paper on the private market. International equipment trusts may be an attractive means of financing nonstationary export items.

States such as California, Utah, Wisconsin, and New York, are focusing on ways in which their states might create export financing facilities to increase the availability of competitive export financing. States have the potential of substantially alleviating the problem of foreign subsidized export finance by offering new resources for direct loans, interest rate equalizing programs, state-based guarantee facilities, or other mechanisms to diversify United States export financing capabilities.

State participation in export finance is at a very early state of development and no state has yet implemented an export financing program. Mr. Alan Parter, Deputy Commissioner of the Department of Commerce of the State of New York, has testified before the Committee on their proposal for New York. We are actively studying the New York proposal and other responsible state initiatives as part of our work for the CCCT report.

Export financing cooperatives (EFCs) are another area that we are exploring. Lehman Brother Kuhn Loeb, a large investment bank, has developed a proposal for instituting the first export financing cooperative to complement existing United States official export financing programs. Export financing cooperatives have the potential of tapping new capital resources and offering more competitive rates for medium and long-term financing for EFC members.

The Export Trading Company legislation will allow banks to own equity in export trading companies. In many cases, we expect such entities to be designed to offer a "one stop" export service for inexperienced small and middle-sized businesses. We, therefore, anticipate that many of these financial transaction difficulties experienced by small exporters will be solved for two reasons:

(1) export trading companies formed for the express purpose of taking over transactional problems for the small exporter will be available throughout the country, and (2) the banking community as a whole will be more aware and take new resolve in facilitating exports.

Export Regulations

When we first came to the Department of Commerce, we inherited a substantial backlog of nearly 2,200 export license applications. As of October 30, 1981, that backlog was reduced to less than 200 cases, and now there is virtually no backlog at all. The reason for the backlog was due to lack of clear policy guidance. The reduction in the backlog was achieved through the concerted efforts of all agencies involved in the licensing process. Every effort is being made to ensure that all applications are processed within the deadlines established by the Export

Administration Act of 1979. Generally routine, free world applications are processed in 10 to 20 working days. This represents 85% of the caseload. Less than 10% of overall export trade involve controlled commodities that require a validated export license from the Department of Commerce.

Small Business Export Development Assistance Program

Mr. Chairman, I know you are interested in the status of the Small Business Export Development Assistance Program established under the Small Business Export Expansion Act of 1980. Funds totaling \$2.0 million were made available in FY 1982 for grants of up to \$150,000 each.

These grants were intended to defray the costs incurred by the applicants in establishing local programs to provide export assistance and services to small businesses interested in pursuing export sales.

The Department of Commerce received 287 applications prior to the May 31, 1982, deadline. We reviewed and ranked all 287 applications. Recommendations were forwarded to our central grants processing unit and as you know the State of Washington was awarded and accepted one of these grants.

The average request for assistance from the most responsive applicants was \$125,000. In our efforts to hold our administrative costs to a minimum, we were able to use existing staff to administer the program. As a result we can award approximately 1.95 million dollars in awards. As required by the implementing legislation, at least one grant will be awarded in each of the 10 designated regions. Final announcements were made late in September.

Applications were initially evaluated by a panel of international trade specialists assembled in each District Office. Following this review, a Washington Evaluation Panel consisting of 10 International Trade Specialists further evaluated the top-ranked applications from each of the 47 District Offices.

Monitoring and reporting of the grants process will be carried out by District Offices with assistance from USCS Liaison Staff.

Conclusion

Thank you for inviting me to testify this morning. Let me state again the Administration's commitment to assist small business to enter international markets and realize their export potential. I will be pleased to answer your questions.



U.S. Small Business Administration

STATEMENT OF
PRUDENCIO D. BALATERO
REGIONAL EXPORT DEVELOPMENT SPECIALIST
SMALL BUSINESS ADMINISTRATION
BEFORE THE
SENATE SMALL BUSINESS COMMITTEE FIELD
HEARING ON OBSTACLES TO EXPORTING FACED
BY SMALL BUSINESSES
UNITED STATES SENATE

SPOKANE, WASHINGTON
OCTOBER 21, 1982

DEAR MR. CHAIRMAN AND MEMBERS OF THIS COMMITTEE:

I am pleased to appear before you today to discuss the U. S. Small Business Administration's International Trade Program for the Small Business Administration in Region X. The Pacific Northwest States of Alaska, Idaho, Oregon and Washington comprise this region.

I do not intend to duplicate existing testimony, but for the record, I reference the overview of SBA's philosophy and approach to international trade presented by Mr. Peter Terpeluk, Jr., Acting Deputy Administrator, Small Business Administration, before the subcommittee on Export Promotion and Market Development Committee on Small Business, United States Senate, August 19, 1982.

SBA Administrator Sanders and Regional Administrator Hall firmly believe that international trade is a priority for SBA. Our Regional Management Plans and District Operating Plans clearly outline objectives and actions supporting an International Trade Program.

I report to the Regional Administrator and work through our five District Offices with the District Directors, Management Assistance Officers, and Loan Specialists who have been specifically designated international trade responsibilities.

Our basic program aims are to identify, motivate, inform, and assist potential and current small business exporters to export or to increase their exports. I believe various local export assistance resources working together can and will accomplish these aims. This has been our approach: leverage our efforts with public and private sector support.

Export assistance resources used include SCORE, the Service Corps of Retired Executives; ACE, Active Corps of Executives; federal, state, and local government agencies; the private sector, such as, the International Trade Administration of the Department of Commerce, various State Departments of Commerce and Economic Development, the Department of Agriculture, international bankers, foreign freight forwarders, export management companies, Chambers of Commerce, Universities, colleges, Small Business Development Centers, Trade Associations, World Trade Clubs, etc.

Our office has published a Directory of Local Export Assistance Resources in Region X for small business persons interested in exporting. In addition, each SBA District Office has a small international trade library that is available to the small business person and to local export assistance resources.

Some small businesses contact SBA for export development assistance as a result of attending an export conference. Or, perhaps, they want to know more about our new Export Revolving Line of Credit Guarantee Loan Program. However, our present and past premise is that the majority of potential small business exporters that could use export development assistance will probably not attempt to directly contact us. There

can be many reasons for this situation, e.g., never considered exporting, fear of the unknown, the mystique of international trade, including the real or perceived roadblocks published in The Survey of Findings on Obstacles to Exporting Faced by Small Businesses by the Senate Committee on Small Business dated July 30, 1982. I might add that my experience over the past 22 months indicates that your findings are quite correct. There is a great need for small business people to obtain up to date and relevant export information. Unfortunately, too many business persons do not know how to go about it.

SCORE/ACE INVOLVEMENT

Therefore, in the region we have an outreach program whereby we initiate contact with small businesses through SCORE volunteers with international trade backgrounds. There are presently 27 SCORE foreign trade counselors in Region X participating in our Export Development Program. Theoretically, our advantage is the Agency has no volunteer personnel ceiling as we do with career employees. The SCORE/ACE member volunteering his or her expertise in foreign trade makes this group our major resource to assist small businesses in our International Trade Program.

These SCORE volunteers contact small businesses usually by telephone. They motivate and make counseling appointments with small business persons interested in learning more about exporting possibilities. The SCORE volunteer generally visits the place of business to counsel and to assess the business. Follow-up visits are made by the volunteer inviting other pertinent export assistance resources as needed, i.e., International Trade Administration (ITA), a banker, etc.

Besides outreach and direct counseling, SCORE/ACE foreign trade counselors, also sponsor or co-sponsor export training seminars and conferences. In fact, today in Seattle, Washington, SCORE/ACE is co-sponsoring such a conference entitled, "Small Business Can Export Profitably." It was a SCORE volunteer's experimental idea to bring together commercial representatives from Pacific Rim country consulates to tell the attending small business persons what products and services their country imports. Afterwards, the small business persons can visit the booths of the countries importing their type of products or services for more detailed marketing information, such as overseas contacts.

In the afternoon, the small business attendees will hear export talks from ITA, the Washington State Department of Commerce and Economic Development, an international banker, the SBA, an expert in trade shows and exhibits, etc. If this conference approach is successful, future seminars can feature foreign commercial attache representatives from other regions of the world. We will consider Latin America, Middle East nations, Common Market Countries, and any place in the world where our business persons can export their products.

SOME EXPORT SUCCESS STORIES

I would like to share with you examples of SCORE foreign trade counselors' assistance to small businesses and the success they have had.

Last December, a SCORE volunteer and I visited a manufacturer of specialty farm machinery. We met with the President and his General Manager. Although the product had been accepted domestically and appeared to be of high quality and marketable after some seven years of development, the firm was near bankruptcy.

With their heavy debt and curtailed sales, we estimated that the business would stop operations within 90 days. Bankers were not interested in loaning them additional money.

Our most important advice to them was to locate an Export Management Company that specialized in farm machinery. The firm took this advice, researched, and found their EMC. Within four weeks the EMC acquired \$500,000 in sales orders to South America for them.

Instead of closing their doors, the firm had to hire 35 additional persons in this depressed area. A willing banker loaned them working capital based upon these export orders. Sometime later, a follow-up visit by our SCORE volunteer was made and he learned an additional \$1 million in export sales had occurred through their EMC. About two weeks ago, our SCORE volunteer followed-up again, and learned the firm is expecting additional export sales orders for \$3 million to Saudia Arabia and Iraq.

In another instance, a SCORE volunteer motivated a small manufacturer of finished wood cabinet doors to become interested in exporting. The firm's sales were stagnant at the time. The results are the firm has exported about \$1 million of his product to Norway this year.

A local manufacturer, through the efforts of a SCORE volunteer and other resources, is very near to consummating a \$2 million order with Saudia Arabia for their special equipment. This will be their first exporting experience.

Just recently, our Region's first Export Revolving Line of Credit Guaranty Loan for \$500,000 was approved for a woman-owned lumber mill. Although the firm had solid orders from Japan for metric cut lumber, it was unable to borrow from any bank the necessary working capital.

SBA's guarantee of 90% of the loan with a participating bank finally overcame this financial obstacle. The mill is in a high-unemployment county. It is projected that these export orders will necessitate the company to add a second-and-third-shift operation. Employment for the firm and its log supplier will increase by 250 persons. The total cash flow through the firm because of the SBA guaranteed line of credit over an eighteen-month period is expected to be \$4.5 million.

On July 1, 1982, SBA and the National Oceanic and Atmospheric Administration signed a cooperative agreement to encourage greater small business participation in NOAA sponsored and managed overseas trade promotion events. The first such event is the U. S. Seafood Sales Exhibit at the SIAL World Food-Fair in Paris, France, November 15-20, 1982. For this exhibition, NOAA allotted two exhibit spaces to SBA. SBA will provide NOAA with funds to cover the participation fee for two SBA-selected small seafood processors or wholesalers. The selected firm must pay its own travel and per diem expenses. I am pleased to announce that a woman-owned firm from Region X was one of the two selected. The anticipated overseas sales to be made by this firm at the fair will be its first export sales.

SBDC ACTIVITY

The Small Business Development Center Program is a major Management Assistance Program of the Agency. In Washington State, the SBDC is organized as a consortium, that is, Washington State University, the lead organization, with Eastern Washington State University and the Washington State Department of Commerce and Economic Development are consortium members. There is serious negotiation to add Western

Washington State University to the consortium. For the SBDC activities described in our annual SBA/SBDC Cooperative Agreement, SBA funds 50%. The SBDC matches the SBA share.

The SBDC with major support from Washington State Department of Commerce and Economic Development is presenting five export conferences for small businesses during November, 1982, throughout Washington State, i.e., the cities of Bellevue, Kelso, Richland, Spokane, and Tacoma.

The SBDC is planning to propose to SBA increased international trade development assistance for small businesses for calendar year 1983. Besides sponsoring export conferences throughout Washington State, the SBDC is planning to accept a number of Small Business Institute cases pertaining to international trade.

Teams consisting of three or four university students will be formed to assist small businesses with actual international trade problems/tasks that the firm is encountering. The student teams will work with their assigned firms for a semester under the guidance of their professor and teacher of international marketing. Near the end of the semester, the student teams will formally present a written report to an SBI committee with owners or key members of the subject firms present. The report consists of a statement of the problem, the teams' approach to the problem and solution or recommendations for the firm.

The SBDC plans to hire during 1983 an international trade specialist to assist small businesses if their budget and personnel allocation permits it. This will increase their international trade activities.

OBSTACLES TO EXPORTING

I recently heard an international tax expert from Washington, D.C., address a world trade group on the disadvantages to U. S. exporters certain taxes impose. Some of the mentioned tax laws at first view appear neutral, i.e., appear neither an advantage or disadvantage to the U. S. exporter, but closer examination reveals possible disadvantages.

The message of this tax expert is that some U. S. tax laws should be thoroughly examined: are the overall taxation results what the government wants? I respectfully suggest that this Committee explore the tax area with the counsel of international tax experts.

Recognized international trade experts tell us that the Pacific Rim countries are very important to the U. S. in trade exchange activities in the foreseeable future, certainly beyond the year 2000.

Positive Government actions should take place in our public schools' curriculum to encourage the inclusion of subject matters that educate and prepare our future entrepreneurs for domestic and international trade endeavors. These efforts should occur in the lowest grade level practical. For example, I am not aware of Japanese or Chinese language courses being offered in our grade and high schools in the Pacific Northwest Region. Emphasis on the importance of international trade could be included in existing appropriate courses.

The Export Trading Companies Act recently signed into law by President Reagan provides for a significant approach by which small businesses can enter the export market. SBA supports this legislation.

CONCLUSION

SBA takes the mandate of the Export Expansion Act, Public Law 96-481 very seriously, Mr. Chairman. We, in Region X, will give our International Trade Program the visibility and emphasis that the Congress and the President have requested.

We will do it in partnership with other federal, state and local public agencies, and with the private sector. Increasing small business exports means increasing small business jobs, a stronger small business sector, and a stronger United States.

Mr. Chairman, this concludes my prepared statement. I shall be happy to answer any questions you may have.

Senator GORTON. We have had two people sign up. If Mr. Tenold is here, we would ask him to come up first. I gather that he has to leave soon.

Is Mr. Ernie Omri still here?

[No response.]

Senator GORTON. Apparently he is not.

Is Mr. Gaeter here?

If Mr. Tenold and Mr. Gaeter will come forward, we will here briefly from each of them.

Please identify yourselves precisely for the record: name, address, and whom you represent, and then we will be happy to hear from you.

STATEMENT OF TERRACE TENOLD, VICE PRESIDENT AND GENERAL MANAGER, MANUFACTURING DIVISION, SPOKANE INDUSTRIES, INC.

Mr. TENOLD. My name is Terrace Tenold. I am vice president and general manager of the manufacturing division of Spokane Industries, Inc. We are a basic steel company. We are a foundry as well as a manufacturing facility. I manage two operating divisions. One is Spokane Crusher Manufacturing Co. and the other is Spokane Metal Products.

In our crusher end of things we are faced with the exporting of large, heavy, rock-crushing equipment which we manufacture here in Spokane and ship successfully throughout the United States. We have been getting into foreign markets in the past couples years.

The item that I wish to bring up is that we are faced with a battle to compete not only with companies from abroad but the country as well that subsidizes the companies at trade shows and other sales and marketing advantages to them.

We obviously are at a tremendous disadvantage when we compete with the foreign country as well as with the company.

I, of course, am not asking for any subsidies and do not believe in that. However, I do believe that there may be some way that our Government can extend some low interest Small Business Adminis-

tration loans for this reason or other possible ways that we can be helpful.

That is all I have.

Senator GORTON. I thank you very, very much for that suggestion.

We also have another person signed up to speak.

Is Mr. Lee here? Is Mr. Gaeter here?

You are Mr. Lee? Would you identify yourself in the same fashion, please?

STATEMENT OF LARRY LEE, EXPORT MANAGER, BLUE CHELAN

Mr. LEE. My name is Larry Lee. I am the export manager for Blue Chelan.

I just want to respond to a few of your questions.

Senator GORTON. Fine. Go ahead.

Mr. LEE. I might point out how critical the Far East markets are to us right now. We presently are exporting as an industry about 20 percent of our crop, or around 10 million boxes of fruit.

Present estimates in the State are that in the next 5 years we could be packing somewhere in the neighborhood of 75 million boxes of apples. We presently pack anywhere from 47 to 48 million to 50 million. Two years ago we packed 52 million, packed and sold that many boxes. It represents a market value in excess of a half billion dollars presently, and probably three quarters of a billion dollars in the next 5 years.

To give you an idea, if we were to export 30 percent of our crop in the next 5 years on a 75-million-box crop year, it is around 20 million boxes, which would leave us over 50 million boxes of apples to market domestically, which has never been done historically. Probably the most that has ever been marketed domestically is around 35 to 37 million boxes. That points out the fact that we do need the export markets.

Presently the Pacific rim is the largest growing area for us. Europe is an area where, if anything, we just rob pieces of the pie; we do not really expand the market. The Middle East is a big market for us, but I believe that probably we have reached a zenith on the number of boxes that we can get in there. South America is a problem because of the dollar problem we have there and their own inflationary problems.

I want to point out that we do have a severe duty problem in Taiwan. This 100-percent duty has not, as you pointed out, created an embargo problem for us. What it has created for us, though, it is a market situation in which we have buyers in that market operating in an illegal and an unethical manner, bringing fruit in and undervaluing their letters of credit, understating to the customs people the value of the fruit. We have fruit making poor arrivals. We have generally a demoralized situation. It has reduced our market to less than half of what it was 2 years ago.

We have the same problem right now in Venezuela. The government has suddenly realized that, because they were spending petro dollars which they have not been realizing in the past 2 years, they should not lift their duty and to allow us, as we normally have in the past few years, to sell apples into that market. Again, what we

have is a problem of companies literally smuggling illegally by underdeclaring and misstating the number of boxes in a container, et cetera, illegally bringing or smuggling the fruit into the market.

The problem it creates is that we find ourselves operating in a method under which we are not comfortable operating. We would like an open situation in those markets in which we could really move our fruit in the same manner that they move their goods into our country.

All we are asking of Taiwan, for example, is that we are an FOB country ourselves and we apply duty on an FOB basis, as Ron stated, and we simply would like to be treated in the same manner.

Senator GORTON. Obviously, you have carried the desire to the International Trade Representative?

Mr. LEE. The U.S. Trade Office.

Senator GORTON. Do you have any or are you getting any encouragement or help?

Mr. LEE. As you may know, there was a time when the trade delegation was recently in Washington. We had made contact with the Trade Representative's Office. They indicated to us that delegation felt that their balance-of-trade payables were, let's say, out of balance and that they were strongly considering as a country to change the entire policy on imports to that of an FOB basis. We would like to see that pressed, frankly.

Senator GORTON. Of course, if you could break into the Japanese market, that would be much larger than Taiwan, Venezuela, and so on, combined, wouldn't it?

Mr. LEE. Well, I don't think—I would not take it that far, but it is probably a 2-million-box market to us.

I would like to point out in this area that you inquired whether or not this poses a serious competitive threat to the Japanese. Only in certain months of the year does it do that. If you were to graph it, they have a peak marketing time, whereas the State of Washington, because of its CA capabilities and our general industry capability to market year round, can take advantage of the months when they simply do not have fruit of their own to market in their own country.

We would like to point out something else, too. You inquired as to the competition in Taiwan. Strange as it may seem, I have been there twice in the past year, and you do find mainland China apples both in Taiwan and in Hong Kong on the street, in the market.

Whether or not they are importing those in abundance, I would not say or could not say. However, you do find them in the market.

Second, probably our biggest competitor in North America is Canada. We have tremendous competition from Australia and New Zealand with their apples. We also have real competition with Japan and Taiwan with their apples, as well as Korean Pears, which pose quite a bit of competition for us.

I would like to make just a couple more points. The exchange problem, the strength of the dollar is now creating a problem for us. For example, in Hong Kong since I was there in August the exchange rate has climbed from 5.9 to 1 to about 6.75 to 1, and it is right about 6.55 to 1 right now. Therefore, we presently do have

serious problems with the strength of the dollar on our export program.

Senator GORTON. Thank you very much, Mr. Lee.

Is Mr. Gaeter here?

[No response.]

Senator GORTON. If not, then I will repeat once more that we will be happy to include anything which we receive in writing within the next 2 weeks in the record of this hearing.

With that, the meeting is adjourned.

[Whereupon, at 3:20 p.m., the hearing recessed, to reconvene at the call of the Chair.]

A P P E N D I X

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TESTIMONY OF ATLANTA CHAMBER OF COMMERCE

Before the Committee on Small
Business of the United States Senate,
Subcommittee on Export Promotion
and Market Development

Presented by Paul S. Reichler,
Powell, Goldstein, Frazer & Murphy

August 19, 1982

Mr. Chairman and Members of the Committee,

My name is Paul Reichler, and I am with the Washington
Office of the Atlanta and Washington law firm of Powell,
Goldstein, Frazer & Murphy. I would like to start by thanking
you for inviting me to testify today on behalf of the Atlanta
Chamber of Commerce.

We greatly appreciate this Committee's continuing concern
with the problems of small business, and particularly its
current examination of the potential role of small business in
export trade. Clearly, much could be done to enlarge export
opportunities for U.S. small business, and remove some of the
obstacles that presently block the way to development of

overseas markets. By conducting its recent survey of small business on these issues, the Subcommittee has performed the valuable first step of identifying the most serious problems and collecting suggested solutions -- and it has done this in the most effective way: by going directly to the source, the affected businesses themselves.

Mr. Chairman, the results of the Subcommittee's survey correspond closely to our experience in Georgia: small businesses in Georgia have encountered many of the same problems described by the survey respondents -- such as information gaps -- and we have proposed solutions along the same lines as those suggested by the companies surveyed. In fact, the Atlanta Chamber of Commerce has prepared a detailed memorandum discussing several of these export problem areas and possible legislative solutions, focussing especially on the issues most relevant to the Georgia and Atlanta-area economies. Rather than present this entire memorandum to the Committee this morning, what I would like to do, with your permission, is to submit the memorandum for the hearing record and briefly highlight a few of its most relevant points here.

Our major concerns include the following.

First, lack of information is a major problem for small businesses seeking to trade abroad. For example, in the service sector, which accounts for approximately 71% of Georgia's labor force (and includes, for example, the building and construction, engineering and related consultant industries), Georgia businesses have complained about difficulties in obtaining reliable, up-to-date information on potential foreign markets, and on relevant foreign laws. Other Georgia exporters have indicated that they have had difficulty obtaining English language versions of foreign product standards. For a small businessman unfamiliar with foreign trade, the lack of access to adequate information is a serious deterrent to developing his export potential.

In addition, in the service sector and in general, and particularly in the agricultural sector, Georgia businesses feel they have suffered from the subsidized financing of exports that some of our trading partners provide. For example, we have encountered stiff subsidized competition from the French poultry industry's sales in third world markets. We therefore support the efforts of the U.S. government to persuade its trading partners to increase their respective

financing charges on export transactions to near market rates, and we oppose efforts to decrease the Export-Import Bank's loan ceiling authorization. Moreover, the Exim Bank should shift to a greater emphasis on financing exports by small businesses.

Our other concerns in this area include, briefly: the dangers of retaliation, as "reciprocity," against foreign trade practices, which could increase rather than decrease barriers to foreign markets; the confusion and compliance difficulties created by the Foreign Corrupt Practices Act; difficulties in comprehending and complying with the Arab boycott provisions of the Internal Revenue Code and the Export Administration Act; problems in exporting under the Webb-Pomerene Act, even as it would be revised by pending legislation; and limitations in the usefulness of the "DISC" (domestic international sales corporation) provisions of the Internal Revenue Code. Our memorandum discusses each of these issues, and the pros and cons of some proposed legislative solutions, in some detail.

I hope that these general comments are helpful to the Committee, and once again I would like to express our appreciation for the Committee's efforts on behalf of small business, and particularly for its concern with expanding small business export trade opportunities.

Thank you, Mr. Chairman.

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MEMORANDUM

TO: United States Chamber of Commerce
FROM: Atlanta Chamber of Commerce
RE: Legislative Developments and Positions
Regarding Export Problems
DATE: August, 1982

I. Introduction

This memorandum is intended to indicate those issues of particular interest to the Georgia Delegation regarding exporting from the United States. Georgia has a special interest in this area since some important sectors of the state's economy have relied substantially upon export revenues. The specific issues to be discussed in this memorandum are the following:

1. "Reciprocity";
2. Trade in international services;
3. Financing for the United States exporter;
4. Foreign Corrupt Practices Act;
5. Internal Revenue Code and Export Administration Act provisions regarding the Arab boycott of Israel;
6. Foreign subsidies to agriculture;
7. Modifications to the Webb-Pomerene Act;
8. Product Standards;
9. DISC/FISC.

II. Discussion

1. "Reciprocity"

"Reciprocity" means equal treatment applied to given products and services at home and abroad. It entails a comparison between the treatment accorded American goods and services in foreign markets and treatment accorded foreign goods and services in the American market. It is to be distinguished from the concept of "national treatment." "National treatment" means treatment of foreign goods in a domestic market on the same basis as domestic goods. The present concern with the reciprocity is merely a derivative of the problem of guaranteeing equivalent access for United States goods and services to foreign markets.

With this in mind, we note that the main legislative proposals to bring the concept of "reciprocity" into American international trade legislation, such as S. 2094 (Senator Danforth) and S. 2071 (Senator Heinz), focus upon augmenting presidential authority to retaliate against foreign trade practices, pursuant to Section 301 of the Trade Act of 1974. We support those aspects of this legislation which would require the President to maintain a list of foreign barriers to United States goods, services and investments, and to provide Congress with estimates of the impact of such barriers upon the United States economy. However, we feel that efforts to increase presidential retaliatory options are ill advised. First, augmentation of the presidential retaliatory power will result in increased barriers to foreign markets rather than decreased barriers. Second, the presently proposed legislation does not define that concept which it seeks to implement, namely, "reciprocity". Third, those provisions of the proposed legislation which permit the President to circumvent international dispute settlement procedures may place the United States in violation of various treaties and agreements such as the GATT. In this regard, we support the Senate Finance Committee's revision of S. 2094 which eliminated such provisions. Finally, we note that of the 31 cases initiated under Section 301 of the Trade Act of 1974, only 3 have reached the point where presidential action is needed. This indicates to us that Section 301 is more of a dispute settlement procedure than retaliatory weapon; and given the rather high rate of settlement under Section 301, it appears that the statute as presently drafted is working satisfactorily.

2. Trade in international services

The service industries account for approximately 71% of Georgia's labor force. In Georgia during the 1970-1980 period, increase in employment in the services area far exceeded employment increase in other areas. In addition, there are quite a number of smaller enterprises which have but recently reached that development stage where they could seriously consider export markets. Their entry, however, has been impeded by a number of non-tariff barriers. For example, in the building, construction, engineering and related consultant industry, there have been complaints from Georgia businessmen about the following barriers:

- a) Difficulties in comprehending foreign laws and obtaining reliable information about the policies such laws are intended to implement, as well as the enforcement and compliance policies of foreign governments;
- b) Ascertaining which domestic parties in the foreign country, if any, will be preferred in bidding competitions;
- c) "Staleness" of information disseminated by United States government agencies;
- d) In a "package bid" which would, for example, include design, architecture and engineering, and construction services, the granting of subsidies to a component service resulting in an artificially low bid; and
- e) Indirect labor subsidies, i.e., where labor in a specific industry is supplied by citizens who are working in order to fulfill their respective nation's national service requirements (e.g., in Korea, where there is a choice between entering military service or working in the construction industry).

We enthusiastically support the United States government's efforts to place the issue of non-tariff barriers to international service industries on the agenda for the November, 1982 GATT ministerial negotiations. Additionally, we support the Senate Finance Committee's revision of S. 2094 which would authorize the President to enter into international negotiations targeted at the elimination of non-tariff barriers to trade in services. We also support those sections of the Senate Finance Committee's revisions to S. 2094 providing for the collection of data regarding foreign non-tariff barriers to

the services industry as well as the establishment of a Service Industries Development Program by the Department of Commerce.

However, we also feel that it would be ill advised to provide for "reciprocity" sections in the United States international trade laws regarding services. Further, we feel that augmentation of the President's retaliatory powers pursuant to Section 301 of the Trade Act of 1974 would be counterproductive, and would result in an increase in foreign non-tariff barriers to the American services industry.

Finally, we oppose the foreign registration requirement in H.R. 5519, as it is presently drafted. We feel that such a requirement would merely give foreign governments a pretext to increase the already onerous bureaucratic and other burdens upon United States exporters wishing to do business in such foreign governments' jurisdictions.

3. Financing for the United States exporter

The subsidization of export financing by our trading partners is a serious problem. United States exporters have repeatedly lost out on sales to foreign bidders in third country markets who could underbid them due to such subsidized financing. Even in this country's own domestic market, United States companies have been losing business with an alarming frequency to foreign bidders who have employed subsidized financing. A current case involving financing of railway passenger cars subsidized by the Canadian government, presently pending in New York City, is one example.

We support the United States government's efforts to persuade its trading partners to increase their respective financing charges on export transactions to near market rates. However, the course of current negotiations on this matter indicates there is but minimal promise of success, and whatever success may be obtained, will not appreciably aid United States exporters. Current efforts to decrease the Export-Import Bank's loan ceiling authorization are therefore particularly ill advised. We support S. 2600, which would remove the Export-Import Bank from the Federal budget, so that the Bank will not be as susceptible in the future to political controversies which should be extraneous to it. The "war

chest" provisions of S. 2600 are worthwhile; however, we also note that a \$2 billion ceiling is less than that amount which France alone devotes to subsidize export financing.

Moreover, we would like to see some assurances in any Export-Import Bank bill that there will be a concerted effort to direct export financing to small business. The Export-Import Bank does not, at present, adequately finance small business exports. The present FCIA Special Small Business Policy is inadequate. The premiums charged for such a policy are too high for a small business exporter to bear. Further, the policy's two year limitation essentially means that just when a small business has begun to penetrate export markets, the option of using the Special Small Business Policy is no longer available.

The recently implemented Small Business Administration Export Revolving Line of Credit is also deficient. First, there has been no special funding for this program. Second, this program is merely a guarantee program, and its success is entirely dependent upon the willingness of the private commercial banks to extend credit to small businesses. Finally, since the pilot program preceding this program resulted in only one loan, we doubt that the Small Business Administration possesses the required expertise to administer this program.

4. Foreign Corrupt Practices Act

The Foreign Corrupt Practices Act ("FCPA") is vague in a number of crucial areas and functions as an export disincentive. Small businessmen are particularly affected, because they lack the time and resources to engage in a thorough FCPA analysis while planning a foreign transaction. Accordingly, there are numerous points in the anti-bribery sections of the FCPA which we would like to see clarified. The FCPA does not define when a payment is "corruptly" made. The FCPA does not clearly indicate when facilitating payments to minor ministerial or clerical officials are permitted. Additionally, the FCPA does not indicate when officials of state-owned companies shall be considered public officials. Further, with respect to third party payments, the FCPA does not indicate when an exporter is deemed to have "reason to know" that his agent, distributor or partner will make payments

to a foreign official in violation of the statute. The FCPA does not indicate whether a private cause of action may be initiated pursuant to its bribery provisions.

With respect to the FCPA's records and accounting provisions, we think that the statute should make it clearer that, in most cases of small, closely-held businesses, the records and accounting provisions will not apply. In cases where such provisions will apply, we note that the FCPA does not sufficiently delineate the accuracy required by statute in the keeping of books, records and accounts. Finally, the FCPA does not indicate under what circumstances a parent company will be deemed liable for its subsidiary's violations of the records and accounting provisions of the statute.

We support S. 708, substantially as passed by the Senate last November. We support its elimination of the "reason to know" language regarding certain third party payments. Its explicit exemption of facilitating payments from its prohibitions clarifies the FCPA substantially. We support S. 708's exemption of customary travel and entertainment expenditures associated with the selling or purchasing of goods and services, "demos", or product explanations. We feel, however, that the lack of a "materiality" standard in the accounting and records provisions of S. 708 means that it will remain especially difficult for a small business exporter, if he falls within the statute's coverage, to comply with the FCPA. In this respect, we support the insertion of a "materiality" standard into the records and accounting provisions of the FCPA, as H.R. 2530 expressly provides. A "materiality" standard will make it easier for small businessmen to comply with the statute, and will render the statute less of an export disincentive.

5. Internal Revenue Code and Export Administration Act provisions regarding the Arab boycott of Israel

A. Internal Revenue Code

The current Internal Revenue Code ("IRC") provisions regarding the Arab boycott of Israel are highly technical, and are not comprehensible to businessmen, tax advisers, or even IRS agents. The IRC prohibitions are similar, but not identical to, the Export Administration Act prohibitions

regarding this subject. This causes much confusion, since often, compliance with one statute is not compliance with the other. The IRC provisions require extremely costly reporting procedures, which are especially burdensome to those engaged in export on a small scale. Further, the IRC anti-boycott provisions have resulted in comparatively little revenue. Moreover, because of the IRC's basic sanction of denial of certain tax benefits, the IRC boycott provisions do not deter compliance with the Arab boycott, but rather, turn cooperation with such boycott into a mere cost of doing business. The Export Administration Act provisions regarding the Arab boycott of Israel are much more effective because of the fines, criminal penalties and possible seizure of shipments which are included in that statute as sanctions. Since the IRC boycott provisions do not deter compliance with the Arab boycott, result in little revenue, require costly reports, and are supplanted by the Export Administration Act, we recommend that the current IRC provisions be repealed.

B. Export Administration Act

The Commerce Department has proposed a regulation providing that when the terms of a letter of credit clearly require that its beneficiary certify that it is not on a boycott blacklist, a bank's refusal to pay on the letter of credit if such letter's beneficiary will not provide the required self-certification shall be deemed to be a prohibitive refusal to do business. The Commerce Department's basis for this proposed regulation is its interpretation of the present regulations that a bank may pay on such letter of credit, but may not "insist" upon the negative self-certification contained in such letter. We feel that it is necessary for the Commerce Department to explain the basis for its position that bank payment upon such letter of credit is permitted, but that "insisting" upon a condition contained in such letter is not. Presently, there is no such explanation contained in the regulations of the Export Administration Act.

The Commerce Department has also proposed a regulation which would prohibit the implementation by banks of letters of credit including conditions prohibiting the negotiation of such letters by banks whose names are included in the Israel Boycott Blacklist. We feel that the Commerce Department should issue further guidelines indicating it will presume that a beneficiary's implementation of a transaction in the face of such a condition in a letter of credit will be deemed, without more, to be agreement to such condition.

We agree with the Commerce Department's proposals to add "vessel-eligible" certificates and insurance company certificates regarding presence of authorized agents or representatives within a specific country to its list of non-reportable requests. Finally, we find nothing objectionable about the Commerce Department's position regarding "risk of loss" clauses.

6. Foreign subsidies to agriculture

Georgia's agricultural industry has been particularly hard hit by competition from subsidized goods in third country markets. We have found that the stiffest subsidized competition comes from the French poultry industry competing for sales in third world markets. The poultry industry estimates that, for the first quarter of 1982, total exports decreased by 25%. For Georgia, on a projected yearly basis, this would mean the loss of approximately 2 million payroll dollars, and the loss of about \$860,000 in revenue for small family farmers. Sources in the Georgia poultry industry estimate that if such foreign subsidized competition in third country markets is permitted to continue, the state's export poultry industry will be totally eliminated by 1988.

7. Modifications to the Webb-Pomerene Act

The basic problem with the present statute is that there is neither a substantive nor procedural guarantee of antitrust immunity. While legislation currently pending in Congress at least partially addresses this issue, it is essential that any Webb-Pomerene revisions that are adopted clearly include antitrust immunity for private causes of action. Further, since it seems very likely that a revised statute will provide for certification procedures, we feel it is necessary that such procedures be as streamlined as possible. A complicated certification procedure will act as a further disincentive to small businesses interested in exporting under Webb-Pomerene immunity, since they will be in the least favorable position of complying with such procedures due to the time and expense involved.

8. Product Standards

First, the experience of at least one major Georgia exporter has indicated that where foreign countries, such as Germany, have published product standards, the Department of Commerce has neither English language translations of such publications nor personnel who can translate them. English translations of foreign product standards must be available to small business exporters.

Second, in the agricultural area, Georgia-based food brokers have found an increasing loss of export sales due to U.S. packaging which does not meet metric standards. We call for legislation requiring immediate implementation of the metric system regarding food packaging.

9. DISC/FISC

Under current United States law, United States exporters are entitled to utilize a domestic international sales corporation ("DISC"). The DISC provisions of the Internal Revenue Code really involve the establishment of an incorporated pocketbook which permits a United States manufacturer to defer current United States income taxation of approximately one-fourth of its export profit. These funds can then be reinvested to expand exports. The economic value of the DISC is basically the amount of taxes deferred multiplied by the number of years for which the taxes are deferred multiplied by the cost of funds. This is not much of an export incentive when compared to tax benefits made available to exporters by our trading partners. The usefulness of DISC is further hampered by extremely complex regulations promulgated by the Internal Revenue Service and the antipathy on the part of the IRS to the DISC provisions.

Notwithstanding these problems, DISC has assisted many smaller businesses to begin export operations and to expand them with before-tax dollars.

Other developed countries basically exempt earnings from export sales from their income tax. Our trading partners will make arguments to the contrary; however, tax attorneys and accountants representing foreign companies can state from experience that this is the case.

Much has been made of the GATT Council's determination that DISC is in fact a subsidy prohibited by the GATT. Much less publicity has been given to the fact that the tax systems of the Netherlands, Belgium, and France were found to be export subsidies in violation of the GATT by a GATT panel of experts.

The tax systems of our trading partners which basically exempt export earnings from domestic taxation are based upon the territorial system of taxation, that is, foreign source income of domestic corporations or persons is not taxed until repatriated to the home country.

H.R. 5179 contains a proposal incorporating the territorial tax system to a limited extent into the Internal Revenue Code. Under the H.R. 5179, a United States exporter may establish a foreign "international sales corporation" ("ISC" or "FISC") in any country which has a corporate income tax. This proposal is a partial step in the right direction. It partially provides a functional equivalent of the tax exemption of export earnings available to our trading partner competitors.

Unfortunately, the proposal falls far short of placing United States exporters on an equal tax basis with their competitors. There are a number of flaws in the ISC legislation. First, an ISC must be incorporated in a country which has a corporate income tax. Our foreign competitors face no such restriction. They establish their export sales corporations in tax haven countries. There is no reason for this requirement other than a general antipathy to tax havens. Unfortunately, our trading partners are beating us to death with tax havens.

Second, for an ISC to remain qualified for limited tax deferral it must sell goods produced within the United States by related parties. This requirement would basically deny the ISC benefits to United States trading companies. The typical United States trading company greatly increases the exports of United States goods. These trading companies handle large volumes of exports, while working on very low margins. To deny ISC benefits to these facilitators and generators of export sales is without reason. In other words, there is no reason why a United States trading company which buys from unrelated parties in the United States and sells those goods abroad to unrelated parties should be denied ISC benefits.

Third, presently H.R. 5179 requires that an ISC make sales to unrelated parties abroad. There is no reason why sales to related parties abroad should not be allowed. Often in a multi-national group, the United States parent manufacturing company would establish an ISC to make sales to its subsidiaries or joint venture companies abroad. The sales are just as much export sales as sales made to unrelated parties since the foreign subsidiary generally sells the product to an unrelated foreign purchaser.

Fourth, the ISC provisions as presently drafted require that the ISC be established in a foreign country and that it have some substance, that is, for example, an office and employees abroad. This will deny ISC benefits to that sector of the economy which needs them the most, that is, small businesses and persons new to exporting. As it has been shown by almost every recent economic study, small companies are the major job creators in this country. We recommend that companies meeting the Small Business Administration's small business definition be permitted to utilize a foreign incorporated ISC with no substance outside the United States and with offices in the United States. This is not possible under current tax law or under H.R. 5179 as presently drafted.

Finally, as presently drafted, an ISC is permitted only four shareholders. This would almost certainly hamper the ability of an ISC to raise funds from unrelated parties. There are a number of trading companies in Georgia which have been formed and capitalized through public stock offerings and which have 25 or more shareholders. There is no valid reason for so limiting the number of permitted shareholders.

III. Conclusion

This memorandum has outlined some of the difficulties faced by potential U.S. exporters in Georgia, particularly small businesses. It is essential that Congress and the Administration understand the impact of these trade disincentives, and recognize in particular the importance of providing financing and tax benefits for exporters comparable to those provided by our trading partners.